The Management Review

MAY, 1952

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AMERICAN MANAGEMENT ASSOCIATION

M. J. DOOHER, *Editor;* BLANCHE DOLMATCH, *Digest Editor*

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The Management Review

A Partial List of Contents

General Management

WHY EXECUTIVES DIE YOUNG

WHILE THE EXPECTATION of life for the population as a whole has risen dramatically, that of the business man has remained unchanged for fully two centuries. At present, the expectation of life at birth in this country* is 66 years, and among those who survive their thirtieth birthday, 71 years. Fifty years ago, in 1901, the expectation at birth was 46 years, and after the thirtieth birthday, 62 years. Eighty years ago, in 1871, the expectation of life at birth was only 40 years.

For the business man, according to figures published by Sir Francis Galton in 1872, the average expectation of life among those who had passed their thirtieth birthday during the period 1758-1843 was 68 years. A study of the obituaries today certainly does not present a favorable comparison with Galton. It is startling to see in how many cases, and how suddenly, the end comes at 59.

Why should business have become a hazardous occupation? What is wrong with the business man's way of running his life and his business? We can group the main causes under two headings: *hurry* and *worry*.

Hurry is a phenomenon of recent appearance, a product of the immensely accelerated speed of present-day communications. Though speed is often unavoidable, in too many cases it has become more than a means to an end; it has become almost a vice, a form of self-indulgence in which the restless nerves drive the body beyond all reason.

The worst example of the speed addict is the owner-driver of a car. Every traffic jam puts him in a rage, every careless pedestrian in a sweat. Even if he employs a chauffeur, he drives frenziedly from the back seat. By the time he reaches the office he is a-jangle with frustration and unfit for duty.

Though ease of communication has enabled businesses to grow in size and complexity, in many cases, it has stretched the chief executive to inhuman limits. This piling up of commitments on one man's shoulders is the main source of our second great evil, worry.

While these are inevitably worrying times for business people, too few executives have the precious gift for delegating responsibility and thereby relieving themselves of part of the burden of worry. They suffer from the delusion of indispensability. Self-importance turns them into a one-man band when, for the sake of efficiency and their own survival, they should be conductors of an orchestra.

A man who misuses his working hours misuses his leisure too. He stays late at the office or takes home a loaded briefcase. A perverted conscience comes between him and his light reading. His temper suffers and contaminates his domestic life. Home worries then follow him to the office and so close a vicious circle.

Such exercise as the man takes is likely to be harmful rather than beneficial. A volume could be written on the pathology of sport. For instance, golf, though it appears leisurely, is not suitable for every-

* i.e., Great Britain, where the author is a practicing psychiatrist and member of Parliament.

For publishers' addresses or information regarding articles or books, apply to the AMA Information Service.

one. It can be more nerve-wracking than business. But prescription is not easy. One cannot simply advise a golfer to take up fishing because it is more restful. An irritable temperament will not be soothed by the tedium of waiting for a bite.

Diet is another function which is mismanged by the executive. He tends to eat too little and too much by turns. He loads his appointments list to the exclusion of adequate time for lunch. On the other hand, when he has lunch-time business appointments, the weight of the discussion is usually paralleled by the weight of the meal. He eats—and drinks—more than a sedentary man can absorb.

There is another factor which affects the incidence of ill health—not only in business men. It has been noticed, and confirmed by case studies, that certain ailments seem linked with certain varieties of psychological make-up. For instance, we often observe that of two men carrying the same responsibility one may be prone to peptic ulcers and one not. The former may have a set, grim expression, and be relentless with himself and with others. Research has revealed, however, that a gentle and unaggressive type of personality may underlie his drive and aggressiveness. A great proportion of these ulcer sufferers are thus carrying their burden against the grain of their nature. On the other hand, people who seem to be of sunny and equable disposition may actually be feeling dislikes or hatreds which never appear on the surface. These are often the sufferers from continued high blood pressure. In such cases, a ventilation of their violent feelings might help diminish internal tension and might actually bring about a reduction in chronic hypertension.

Clearly such people, in either category, may be constitutionally unsuitable for great responsibilities and the great vexations that go with them. They may be sentencing themselves by taking on executive positions, and it would be merciful if they dropped the jobs or never assumed them. But apart from such constitutional matters, there is much that can be done.

First, the business man must realize that the essence of management is not to do the job, but to get it done—to delegate responsibility.

Next, the executive who wants to survive must try to moderate and regularize his diet. He must arrange his timetable to permit a reasonable lunch, and if he is wise he will get his business talk over before the meal.

Third, in travel, he should place comfort before speed. More and more of the men who carry great burdens have begun to use the ship again instead of the airplane. The speed of air travel allows insufficient opportunity for adjustments to changing climate and time zones. But a ship compels a slowing down, providing a gentle routine of meals, light entertainments, and discouragement of hard work.

Finally, he should select recreational activities in spheres which offer the least scope for rivalry or exasperation over failure. A hobby not only prevents a man from becoming too closely wedded to his job; it is often a compensation for much that would otherwise be frustrating in business life. A business setback or a humiliating mistake is easier to bear if one can go home and paint a satisfying picture or fill a gap in one's collection.

In conclusion, one cannot repeat too often that to break down on the job is a sign of bad management. It may not be easy under present-day business conditions to maintain physical and mental fitness in a top line job, but any business man with sense should consider it well worth the effort to lower his blood pressure and raise his expectation of life.

—Reginald Bennett. *Scope* (9 Grosvenor St., London, England), April, 1952, p. 115:6.

AFTER KOREA WHAT?

W. GLENN CAMPBELL*

THE DEFENSE program that developed with the outbreak of the Korean War raised many economic problems for both government and business. The peace that everyone hopes is not too far off may bring many more.

No economy can expand as the American economy has within the last five years without causing difficulties to arise. For example, plans call for steel expansion of the pre-Korea output of 100 million tons to 120 million in 1954. Aluminum production is expected to double in the same period. The danger in such rapid expansion is that capacity will become so great that it will be able to meet needs for years to come, with the result that unemployment may arise in durable goods lines.

Areas having heavy war contracts—for example, those manufacturing aircraft and machine tools—may also suffer, at least at first. The problem there is to supply alternate employment opportunities, either in other capital goods industries or in some type of consumer goods production.

Similar problems may arise in durable consumer goods industries. The important question is to what extent war backlog demand was satisfied before Korea, and to what extent other demand has appeared. Unfortunately, demand in durable goods industries is the least stable. This problem will require maximum attention.

Looking at the future, one sees some hopeful facts and figures.

A recent McGraw-Hill survey on expansion plans for industry revealed the following: For 1951, actual capital expenditures came to $18.8 billion; for 1952, they are estimated at $21.2 billion; for the three years thereafter, preliminary plans call for expenditures of $16.7 billion, $15.1 billion, and $14.1 billion. The estimated 1954 and 1955 amounts are higher in dollars than, and about equal in physical volume to, the pre-Korea average.

In March, 1952, *Fortune* predicted that business might run into readjustment troubles in 1952 and 1953, but that by 1954 things would be running smoothly again. It estimated that an index level of 210, as compared with a March, 1952, level of 218, would be required to meet the average 1946-50 demand for goods plus the needs of a defense program larger than the pre-Korea program but smaller than that of the mobilization peak.

Further, there is a tremendous backlog of public construction, which may take up most of the potential slack. Nondefense public construction in the eight years from 1941 to 1948 was $30 billion less than if either the pre-war or 1949-50 levels had been reached. To eliminate this backlog even in a 10-year period would take a $3 to $6 billion increase in annual volume. For example, it has been estimated that, just to put our highway system back on a 1940 level, we could spend $6 billion a year for 10 years, as against a 1952 estimated $2.2 billion. There are also enormous school building needs; the Office of Education says we could well spend $20 billion in the next 10 years on our schools.

Consumer durable goods demands, however, are hard to predict; no one knows how much backlog there will be. If it turns out to be small, business will have to rediscover the lost art of salesmanship. It will also have to be alert in new model production development and in research. However, the fact that some supply pipe lines may become clogged is no reason for lowering production. Nearly 15 million families do not own an automobile. Only

* Economist, Chamber of Commerce of the United States.

one in 10 have two cars. Few have the newest household conveniences that are now on the market. If demand for what we know as consumer durable goods should fall off, removal of restrictions on real estate and installment credit would help. Finally, when peering into the future to guess consumer demand, we should not forget the babies that are coming along. In the 1940's we added 19 million persons to our population. Estimates for the 1950's are higher still.

In brief, to keep our economy expanding in order to provide a richer and fuller life for our people, we must remember that our competitive market economy in which we exchange goods and services must be kept functioning to maintain production and incomes. There is no discernible limit to human wants and needs. Nor, in the words of the economists, need there be any lack of purchasing power if we employ to the fullest our intelligence and our industry.

Industrial Revolution on the Farm

SINCE THE END OF THE WAR, the American farmer has been engaged in an industrial revolution of his own, according to the Conference Board. In 1951, his purchases of agricultural machinery and equipment hit an all-time peak of $3 billion. This figure was more than five times that of 1940, and total expenditures for these items from 1940 through 1951 were three times greater than in any 12-year period preceding 1940.

The magnitude of these purchases is also indicated by the fact that farmers spent well over twice as much for agricultural equipment in the past three years as they did in the entire decade of the thirties. Except for a decline in 1942 and 1943, machinery purchases have risen steadily each year since 1939.

Probably the chief stimulants to mechanization of farms have been tightness of labor supply and high labor costs. The number of workers on farms has shrunk from 11.7 million in 1940 to about 10 million currently, even though farm wage rates have increased more than two and one-half times since prewar—from 17.1 cents an hour in 1940 to 62.7 cents in 1951. In the same period, wage earners' average hourly earnings in nonagricultural employment rose about 140 per cent.

Despite a 15 per cent drop in farm employment since 1940 and a 10 per cent decline in man-hours of farm work, farm output has expanded by 30 per cent. Output per man-hour on the farm has risen almost 50 per cent since the beginning of the last decade, or an average of 3.6 per cent annually. This is considerably higher than for the rest of the economy.

DO YOU HATE YOUR JOB?

PRACTICALLY every American man—and many American women—must "work for a living," that is, earn a salary. How successfully we do it depends on how shrewdly we channel our capacities into directions which will bring us maximum awards. Science has for some time taken an interest in the wage-earner. Here are some of its findings, in the form of questions and answers:

1. Would you be happier if you didn't have to work for a living?

A: No. If you inherited enough money to quit your job and take it easy, the odds are that you would regret it. Psychologist George Ross Wells points out that to earn a living is positive proof of your value. And this reassurance is essential to that feeling of self-respect and self-confidence that is man's chief need. Studies have also shown that work reduces conflict and frustration and gives us an opportunity for concrete self-expression.

2. What type of work are you likely to be most successful at?

A: The kind of work you like to do best. A recent nationwide survey showed that the overwhelming majority of those who had risen to executive rank in their field were doing work they got a "kick" out of. But of those who had failed to rise, almost half considered their work "uninteresting" or "dull."

3. Where can you do the best work?

A: Tests indicate that ideally every man should have one specific place which is used exclusively for work—and for no other purpose. Says Psychologist Harold E. Burtt, of Ohio State University: "The idea is that if one never does anything else at this place he forms a specific habit of working there. Such a strong connection is formed between the particular location and the work that merely sitting down there is sufficient to start the man off."

4. Is there a best time of day for doing difficult work?

A: The consensus of scientific studies shows that the average person does his best work in the morning. For this reason, experts point out, we can increase our productivity by scheduling our most important work for the morning hours and taking care of the more routine matters in the afternoon.

5. Can you do better work when you're "lying down on the job"?

A: Literally speaking, yes. Studies conducted at Colgate University indicate that if feet are propped up slightly higher than the head, thereby increasing the amount of blood coursing to the brain, greater competence is the result. In a study of undergraduates, the Colgate psychologists found that the students were able to do mathematical problems 7.4 per cent faster in this position—and accuracy was improved 14 per cent.

6. At what temperature do you do your best work?

A: It depends on the kind of work you're doing. At Johns Hopkins University, scientists found that physically strenuous work requires a temperature of 60°; moderately hard work, 65°; and if you're a desk worker, your capacity for work will vary with winter and summer. Winter's best temperature was found to be between 68° and 73°; summer's, when the thermometer registers between 75° and 80°.

7. How can you get the greatest benefit from rest periods?

A: It depends on the type of work you're doing. According to a study made at the University of Cincinnati, if the work is largely physical, then complete relaxation is likely to take the edge off

the worker's faculties to such an extent that he will find resuming work difficult. The mental worker, the study found, should engage in some mildly stimulating activity, such as taking a short stroll, listening to music or taking part in an animated conversation.

8. Why does a person become bored with his job?

A: If your job bores you, you've got lots of company. A wide-scale industrial survey reports that boredom is responsible for more absenteeism than all other causes put together. Any work—or play, for that matter—will tend to bore you unless the rewards received are on a par with the effort you expend. The rewards may be money, satisfaction, pleasure, advancement, self-expression, or anything that seems worth while to you.

9. Is it normal to hate work?

A: Some people have an active distaste for work. They hate it, and regard it as something to be avoided whenever possible. At the other end of the scale is the work addict. He has an unquenchable passion for work, driving himself relentlessly, and is almost incapable of enjoying leisure. The work addict, says Dr. Bernard S. Robbins, noted psychiatrist, is merely trying to keep his anxieties and inner fears from coming to the surface of his mind by drowning himself in work.

If your attitude falls in either one of these opposite categories, the likelihood of neurosis exists. Such a condition requires the methods and skill of a qualified specialist.

10. Are most people satisfied with their jobs?

A: At Clark University, psychologists made a wide-scale survey of workers whose occupations ranged from the professional specialist to the lowliest ditch-digger. Their findings showed that only about 60 per cent of the workers were satisfied with their jobs.

The vast majority of professional men and business executives were happy in their work, and found it both absorbing and rewarding. But less than 42 per cent of the white-collar brigade of office workers regarded their jobs with any appreciable satisfaction. The manual workers—particularly the skilled manual workers—were much happier in their jobs than were the clerical workers.

11. What are the main things that make a man dissatisfied with his work?

A: In the Clark University study, almost 50 per cent of those who were dissatisfied with their work said they didn't like the nature of the work, and felt it didn't jibe with their abilities. Thirty-six per cent were discontented because of economic reasons. Only eight per cent admitted that dislike for the boss, or policies of management, was their primary reason for dissatisfaction.

12. Can overwork cause you to have a nervous breakdown?

A: No. Leading authorities agree that hard work in itself never gave anybody a nervous breakdown. The things which do produce nervous exhaustion are fear, worry, anxiety, frustration—often about your job. Frequently overwork helps prevent a nervous breakdown by giving you less time to worry.

—John E. Gibson. *This Week*, April 13, 1952, p. 8:3.

OUR MAIN BUSINESS is not to see what lies dimly at a distance, but to do what lies clearly at hand.

—Thomas Carlyle

Owner Management vs. Professional Management

SOMETIMES we can see ourselves more clearly and in a better perspective at a distance. Some top-drawer American executives recently visited Europe in teams arranged by the Economic Cooperation Administration to discuss management problems with their opposite numbers in European industry. They came back with a new light on why socialism and communism are unpopular with American citizens. They have concluded that a good part of the credit belongs to management—the enlightened professional management that has grown up with the development of large corporate enterprise in this country.

Here's how they reach that conclusion: they found in European countries a much larger proportion of family-owned business than in this country and a much larger proportion of management executives recruited by reason of family blood or ties than by a selection based upon ability and performance. They found such owner management, on the average, less inclined to share with their customers and employees the benefits of increased productivity, than is professional management in this country.

The result, they find, is a tendency of employees to listen favorably to socialist and communist doctrines, plus the inevitable fact that those countries have not built mass-market purchasing power so rapidly as management in this country, where increased productivity is constantly shared in terms of higher wages. The concept of this "regenerative circuit" of purchasing power, which has built the American standard of living and American industrial capacity, is almost entirely foreign to the thinking of most owner-managers in Europe.

—WALTER MITCHELL, JR., in *The Controller* 3/52

Henry S. Dennison

1877-1952

The Association notes with deep regret the passing of Henry S. Dennison, prominent industrialist and one of the pioneers of the scientific management movement.

Mr. Dennison was graduated from Harvard in 1899, and shortly thereafter joined the family business (Dennison Manufacturing Company) at Framingham, Mass. In 1917 he became president of the company, a position he held until his death.

Throughout his business life, Mr. Dennison was greatly interested in the furthering of scientific management principles. He was active in the original Taylor society, of which he was president at one time, and he became a moving force behind the establishment of the International Management Institute at Geneva, serving as a member of its council from its inception in 1927 until the suspension of its activities in 1934. He was also deeply interested in the activities of the American Management Association; among the papers which he presented at AMA conferences were "The Present Opportunity of Management," "Incentives for Executives," and "The Need for an Applied Psychology of Organization."

He lent his services to the government on many occasions, acting as a member of several federal agencies, among them the Industrial Advisory Board, of which he was chairman, and the National Resources Planning Board.

Mr. Dennison was the author of many articles on management subjects, and his book-length publications include *Organization Engineering, Profit Sharing and Stock Ownership for Employees, Toward Full Employment,* and *Modern Competition and Business Policy.*

MANAGEMENT CAN LEARN FROM ITS SHARE OWNERS

IT IS AN AXIOM of our system that ownership begets responsibility. Ownership of shares in industry is no exception. This responsibility takes the form of a desire to see the corporation prosper.

The experience of General Mills is that share owners are definitely interested in more than the financial aspects of company operations. This conclusion was recently corroborated by a survey made by the Opinion Research Corporation of Princeton, N. J., which showed only 24 per cent of the share owners in a number of corporations being interested only in financial matters. More than 71 per cent had broader interests, wanting to know more about the "real character" of the company.

Since 1938, General Mills has been bringing its story to its shareholders by informal regional meetings held throughout the country. Pioneering in this movement, General Mills has held these meetings every two years, except during the war years, in leading cities across the nation. For example, during October and November of 1950, the company took the story of the "crop year" that ended May 31 to its 13,000 owners, at meetings beginning in San Francisco and ending in the headquarters community of Minneapolis. Presentations were also made at Los Angeles, Chicago, Detroit, Buffalo, Oklahoma City, New York City, and Washington, D. C. Share owner attendance averaged about 50 per cent of those invited, or approximately 20 per cent of the company's ownership.

In order to help bridge the gap between corporations and colleges of business, special presentations were also made to "mock share owner sessions" composed of business school students at the Wharton School of Finance, Philadelphia, and the University of Minnesota School of Business Administration, Minneapolis.

In addition, while the company show was "on the road," it was presented to security students and researchers whose job it is to analyze corporate affairs. In 1950, one such meeting was held at New York City. The 1952 schedule calls for a repeat in this city and a second presentation at Boston.

At the meetings of the actual share owners, the chairman of the board, the controller, and the leading local executive greeted every share owner. There was an informal visiting period before and after the one-hour session. The "program" part of the meeting was limited to a brief exposition of the company's record, future plans and philosophies by the board chairman, a specially prepared motion picture film on the year's record, and a review of fiscal highlights by the controller.

The question period that followed each session provided an insight into the thinking of share owners. Though a great many questions specifically concerned financial matters, other questions dealt with the size of the proxy vote at the annual meeting, the company's education program for public schools, reasons for diversification of company operation, etc. Most opinions expressed by the owners were constructive, and there was little evidence of a highly critical attitude.

In brief, the regional share-owner meeting technique for communications is a two-way street between management and owners. The company owners are taken behind the scenes in company operations, while management benefits from the new insight and understanding which they bring to its problems.

—HARRY A. BULLIS (Chairman, General Mills, Inc.) *The Exchange*, April, 1952.

Economic Differences Between Regions Diminishing

ECONOMIC DIFFERENCES between the various regions of the U. S. have become less pronounced in the past two decades, according to a report* issued recently by the Commerce Department. While New England and the mid-eastern areas still account for a third of the nation's output, their rate of growth has slowed in the past two decades. The Far West, Southeast, and Southwest, on the other hand, have developed rapidly and now account for a larger share of the total output. The central area has developed at about the same rate as the entire U. S. and has therefore maintained its relative standing among the regions.

Big industrial and other expansion has been a major factor in the Southwest's income advance from $4 billion in 1929 to $13 billion in 1949. Per capita income in the region has increased at a higher rate than the national average, though as a whole the region still has an average income ($1,166) somewhat below the nationwide figure.

As throughout the country, transportation, business and personal services, and miscellaneous activities shrank in relative importance as sources of income in the Southwest. However, in contrast to the trends in other regions where the growth of the finance, insurance and real estate groups lagged behind the general economic expansion and accounted for a diminishing share of total activity, these industries in the Southwest kept pace with the general economic growth and even increased their relative share of the total.

Regional variations in the rates of growth of per capita income during the past two decades hinged chiefly upon three factors, according to the report: (1) the uneven geographic distribution, among the seven regions, of industries with fast-rising and slow-rising incomes; (2) regional variations in the flow of new capital; and (3) regional differences in the rates at which property income rose.

—*Advertising Age* 11/12/51

* Available from any Commerce Department field office or from the Superintendent of Documents, Washington 25, D. C. $1.00.

Quality Improvement Neglected by Cost-of-Living Index

UNFORTUNATELY, the cost-of-living index does not allow for quality changes. If quality improvements were included, the index would show that the performance of our economic system is even more favorable than is generally recognized.

In 1948 we scrapped 6,700 automobiles and trucks every day of the year. The average scrapped vehicle had run about 120,000 miles and was 13.6 years of age. In 1925 the estimated accumulated mileage of a motor vehicle was about 26,000; the average vehicle was scrapped after 6.5 years. Thus the average lifetime of today's automobile is twice what it was in the middle twenties, and it runs about four times as far.

What is true of automobiles is true of most electric appliances, other durable goods, and many non-durables.

—The Nor'Easter 11/51

Executive Development Handbook to Be Issued June 30

JUNE 30 has been set as the publication date for *The Development of Executive Talent*, a 416-page AMA manual of practical techniques and case studies. This comprehensive handbook will include especially written contributions by experts in the field as well as the best materials on executive development that AMA has published.

Among the topics to be covered are: Basic Principles and Approaches; Planning

the Program; Special Techniques and Approaches; Upgrading—The Individualized Approach; Inventorying and Rating Executive Skills; Following Up the Program; and Case Studies from Representative Companies.

A special pre-publication price (made possible by an extra-large printing of the first edition) is $3.75 to AMA members and $4.75 to non-members. Prices after publication will be $4.50 and $6.50.

Also Recommended • • •

LEARNING TO LIVE WITH THE INFORMAL GROUPS. By Keith Davis. *Advanced Management* (Society for Advancement of Management, 84 William Street, New York 38, N. Y.), Vol. XVI, No. 10. This article discusses the role played in management by informal organization and authority (the latter arises from the social interaction of people and is voluntarily given by associates rather than delegated by superiors). The author points out that informal organization can be a valuable channel for communication and can further organizational effectiveness if its interests are integrated with those of the formal organization.

PUSHBUTTON PLANNING: IN SIGHT FOR BUSINESS MEN. *Business Week* (330 West 42 Street, New York 36, N. Y.), December 15, 1951. One of the by-products of the current arms buildup is a tool for research and policy-making, being worked up by more than a dozen government and private agencies, which will give a statistical picture of the entire economy in an input-output grid (chart). This grid will contain the raw material for answers to some of the following: Where the demand for your product lies; how demand for your product will be affected as the economy grows and changes; how your cost structure and efficiency compare with those of your competitors; what effect government spending, controls on materials, and foreign aid programs will have on demand for your products and cost of materials.

IS INFLATION STILL A THREAT? By Sumner H. Slichter. *The Commercial and Financial Chronicle* (25 Park Place, New York, N. Y.), March 6, 1952. The author lists as deflationary forces the drop in consumer goods expenditure, the decline in business inventory outlays, the slow increase in defense spending, and the very gradual rise in personal incomes. To prevent further inflation he advocates a limit on nonessential government spending, an increase in industrial efficiency, postponement of non-defense outlays, and increased efforts to keep down the rate of defense costs.

PUBLIC OWNERSHIP AT WORK. By Junius B. Wood. *Nation's Business* (1615 H Street N.W., Washington 6, D. C.), April, 1952. Through the Office of Alien Property, our government controls some 300 businesses worth more than $300 million. The detailed history of the OAP presented in this article includes some little-known facts which reveal the influence which political considerations have played in the administration of the agency. Mr. Wood cites figures to show that, from the point of view of profits, the government-operated companies, with many official privileges, did not keep pace with privately owned and managed companies.

SO YOU WANT TO BE THE BOSS! *Commerce Magazine* (1 North La Salle Street, Chicago 2, Ill.), February, 1952. An opinion survey conducted among typical mill workers by an employee publication reveals that the average factory worker has some sound management ideas. The article reports that, given the chance to be boss, these workers would set as their main goals: an understanding on the part of each man of the purpose of his work; a straightforward and honest relationship between the boss and his subordinates; a "sense of belonging" to a company team on the part of each worker; and mutual respect between the boss and the lowest man under him.

ORGANIZATION AND MOTIVATION OF MANAGEMENT. By William Foote Whyte. *Industrial Productivity* (Industrial Relations Research Association, Park and University, Temp. 3, Room 5, Madison 5, Wisc.), December, 1951. In this discussion of the fundamentals of management organization, standardization, and specialization, etc., the author concludes that the executive who can shift the emphasis away from controls toward the development of co-operative relations will enable people down the line to do a more effective production job. He hazards the guess that wherever a horizontal line can be drawn through an organizational hierarchy, dividing college graduates from non-college men, serious problems of developing an effective and reasonably harmonious organization will be present.

Personnel Management

PENSIONS ALONE ARE NOT ENOUGH!

PRIOR TO 1948, Pitney-Bowes had no real retirement policy, though the company did have an insurance plan in effect which provided a form of income to the employee upon his retirement. In May of 1948, this insurance coverage was replaced by Pitney-Bowes' Retirement Income Plan, the total cost of which is paid by the company. It is management's conviction that any pension must be supplemented by certain policies and services to the older worker who is about to terminate his employment, if the retirement is to be a successful and happy one. Accordingly, the company has developed a retirement program which is notable for its non-financial as well as its financial provisions.

Under the Retirement Income Plan, the employee's pension is based upon his average final compensation and years of creditable service completed before age 65. Average final compensation means the average annual total salary received for the 10 consecutive years during which the employee's compensation was the highest. Thus retirement payments, when added to Social Security benefits, would give an employee with 30 years of service at age 65, and with an average final compensation of $3,500, an income equal to about $1,750 a year—50 per cent of his average final compensation. Incomes for those with 30 years of service can range anywhere from 33 to 67 per cent of average final compensation—with a larger percentage being paid to those with smaller incomes and vice versa. Benefits are reduced on that part of total compensation which exceeds $10,000 a year.

The company has adopted a number of measures designed to ease the transition from full employment to retirement and to provide some guidance for the retirement years. For instance, in order to allow older workers to "taper off" from the usual pace of the assembly line or machine shop, many of them are placed in the repair section, in jobs where skill and knowledge of the products are more important than rapidity of accomplishment. In this section they maintain the normal pay rate established on their previous jobs.

To catch the interest of employees during the retirement planning period, articles on employee hobbies are regularly included in the house organ; and the employees' association sponsors a plant-wide "hobby show." A special article on retirement was also published recently in the house organ, and this article has been reproduced in the company's handbook covering the Retirement Income Plan. Counseling for employees due for retirement has already been started; and plans are under way to do much more along the counseling line in the future. In addition to helping the employee decide how he is going to spend his time, how he will budget his income, where he will live, and so on, the company plans to provide all types of information on local arts and crafts centers and other community recreational facilities, as well as information on part-time job opportunities.

Retired employees maintain membership in the Oval Club, a service organization for employees who have 10 or more years of service with the company. They are invited to attend the company's annual picnic, employees' Christmas party, and board of directors' Christmas luncheon party. The company tries to help

them keep in touch with Pitney-Bowes through regular mailings of the house organ to their homes. During the first six months of retirement, a member of the personnel staff makes it a practice to visit those who have retired, and to keep in close touch with them for that period, which seems to be the time most useful in helping them achieve a basic adjustment to life away from the company. At the expiration of an approximate six-month period, it has been noted that most retirees more or less settle down and lose any very strong interest in returning to work on the former basis. Almost all, however, retain an interest in the company, and appreciate receiving company news.

Future plans include a training program for supervisors and foremen on the subject of general retirement policy and on the financial aspects of the Retirement Income Plan, so that they will be in a position to answer intelligently any questions they are asked about the plan. This is meant to supplement, rather than replace, fully explanatory interviews with each employee concerning the plan and the benefits which he himself may expect to receive from it when his time for retirement nears.

The company also plans to utilize aptitude and ability tests to uncover talent and interests which the retired person can develop for his personal enjoyment.

—From an address by JOSEPH J. MORROW before the Joint Conference of the Boston United Community Services' Committee on the Aging and the Massachusetts Legislative Recess Commission Subcommittee on Problems of the Aging, Boston, March 13, 1952.

"EXTENUATING CIRCUMSTANCES" AND THE LEAVE OF ABSENCE

LEAVE OF ABSENCE is a matter that a company generally attempts to keep under its own control. Most managements that deal with unions cover the subject in the contract in such a way that the right to give the rank-and-file worker a leave of absence rests entirely with the company. It may judge each case on its individual merits, and, if conditions warrant, it may permit an employee to take extended time off to attend to personal affairs, or to recuperate from an illness, and still retain all seniority privileges. Leaves of absence to union officers are treated differently. They are usually allowed an absence period of 12 months without loss of seniority if the business of the labor organization requires it. In either case, management's policy is generally flexible, and leaves of absence may be renewed at company discretion if necessary.

But the industrial relations director is sometimes surprised at the reasons that are presented to him as "good and sufficient" when a worker wants time off. Consider the problem faced by one company, for example, when an employee requested a leave of absence. His reason was valid—no argument about that. He was going to jail for nonsupport.

Such a problem admits no easy answer. To begin with, there is the human aspect of the question. Should a management terminate an otherwise capable employee because he is distressed matrimonially? If the answer is "no," then what? Does that place the company in the position of judging the merits of each situation that may arise—in other words ruling on whether, say, a husband who refuses his divorced wife support has justice on his side? One can quickly see the hazards any personnel man risks if he assumes the thankless role of Mr. Anthony.

When a company must formulate a policy on this question, management should see that it is in line with its practice on the garnishment of a worker's pay. "How long," the industrial relations director should ask himself, "would I keep a man on the payroll if his wage check was continually subject to the garnishee?" Most companies think once is enough. They warn the employee on the first instance, and advise him that he faces termination if it happens again. Similarly, in the case of a nonsupporting husband, management might tell him that it will overlook his first offense, and take him back without loss of seniority, but that any recurrence means discharge. Even this, however, sets a dangerous precedent, for it may lead to employee requests for "leaves of absence" to serve jail sentences for other offenses.

Another complicating factor is the tightness of the labor market, which may tempt a company to keep a man around, regardless of his private life, if he does his job well. That and the humaneness of many managements to a worker in trouble encourages inconsistency of action. Now this is certainly no argument against humaneness, but it is a plea for uniformity in the application of personnel policy. For example, if you fire one man who has gone to jail for nonsupport because you figure he probably deserves it, and he is not much help to you anyway, and then let another stay on the payroll because you think he got a raw deal in the court settlement (and, besides, he is a darn good machinist), you are asking for trouble.

If a company is confronted with a situation of this kind, it should spell out its policy, and stick to it. If it decides to go ahead and give the time off to the worker jailed for nonsupport, it should make it clear beyond the shadow of a doubt that once is all. And it should set down the types of offense on which this policy holds good. Then, in the future, it should treat all similar cases in exactly the same way. Consistency of action is the antidote to grievances.

—*For the Informed Executive* (Associated Industries of Cleveland), March 1, 1952, p. 2:5.

A Cooperative Dispensary

HOW SMALL PLANTS may cooperate to provide an efficient dispensary and public health service for their employees is illustrated by the Petrie Clinic in Atlanta.

The idea developed after an infected scratch had caused a worker to be hospitalized and compensation payments had cost his employer $3,000. Deciding that he could not afford to be without the health and safety programs existing in larger companies, this employer approached top men in neighboring plants.

As a result, a cooperative program for health maintenance was initiated, involving the opening of a clinic housed in two basement rooms in a gymnasium conveniently located to the three plants concerned.

The staff comprises a doctor, who spends from 1:30 to 4:30 each afternoon at the clinic, and a nurse, who puts in one hour each day in the first-aid room of each of the three plants and who spends five hours a day at the clinic.

Though the three cooperating plants employ less than 800, the clinic in the first six months took care of 979 new cases, of which 591 were the result of work situations. There were also 1,347 revisits. Seventy applicants for employment were examined, and a plan was put into effect for annual physical check-ups.

It cost less than one dollar per month per employee to operate the clinic for the first three months, including initial equipment.

—*Dun's Review* 11/51

TV—A NEW EMPLOYEE COMMUNICATIONS MEDIUM

IN 1951, TELEVISION for the first time was used as a device of communication with employees. Employees of Detroit Edison Co. sat in on an "all-company meeting" featuring a report via television of the company's activities to employees, stockholders, and customers.

Both president and board chairman handled the program, which included highlights of the company's operations presented on a seven-minute film. The president was the main speaker and gave an up-to-date report on the company; he was followed by the chief engineer, who discussed the company's expansion program and then created a stir among observers by announcing the building of an entirely new plant.

Though the program was aimed at employees, stockholders and customers were, naturally, expected to sit in. Pay envelope inserts and posters announced the program to employees, while stockholders and customers were informed by letters and advertisements.

The program gave company officials a chance to discuss the need for a "wisely-conceived, Congressionally-enacted national power policy." It also provided an occasion for employees to be commended publicly for "their contribution to the company's sound condition and for helping keep the high esteem of company investors, more than 50 per cent of whom use Detroit Edison service." Employees also got the nod for a good safety record.

In the same bracket is Jewel Food Stores' employee communication program by radio. This is a six-day program called the "Jewel Round-Up" sent out over the FM station which provides music beamed primarily at Jewel stores. The program is announced as a "look-behind-the-scenes" in the food business. Most of the material covered is information about Jewel and Jewel people, such as birthdays, anniversaries, promotions, contests, suggestion awards, policy announcements, etc. Interviews with Jewel employees are occasionally worked in, and sometimes outsiders (such as a supplier) are brought to the microphone. Once a week the program presents a singer or other entertainer from a Jewel store.

The program, which has all the advantages of an intercom system, provides Jewel with a quick communication facility to all its people. Each store has a receiver set to the FM station which pipes music into the store. Since the FCC prohibits Jewel from speaking directly to its people as a select group, the script, announcements, and other material are written and presented in such a way as to be considered general information for anyone who might be listening.

Though Jewel finds it hard to determine whether its people listen attentively to the program, on the basis of the number of calls that are received when a mistake or omission occurs, it appears that the listenership is high.

While few companies can avail themselves of such a program as Jewel's, the methods used here are applicable to a public address system in any plant.

—*The Score* (Newcomb & Sammons), Vol. VI, No. 4, Chicago, Ill.

A CIVILIAN WORKFORCE of about 90 million people—about 30 million more jobs and workers than in 1951—is predicted for 25 years from now by Seymour Wolfbein and Harold Goldstein of the U. S. Department of Labor in a new booklet, *Our World of Work* (Science Research Associates).

"IS THERE A LAWYER IN THE HOUSE?"

THERE'S NOT A plant in the country that does not have employees who are troubled about legal commitments and who do not know where or how to turn.

Some companies look upon these as strictly personal problems for the employee to handle himself without aid from management. However, their number is growing fewer: only 12 per cent of the larger industrial and commercial companies refuse to acknowledge the fact that employees' legal difficulties are a concern of management. The others are aware of the close correlation between troubled minds and poor production and have set up specific procedures for helping the worker with a case on his hands.

Workers run into many legalistic dilemmas:

A veteran may want to change his GI insurance. To what government agency should he go? A tenant wants to get the landlord to paint his apartment. How can rent control offices help him persuade the owner to do the job? An employee is running short of cash and finds he cannot pay for some item bought on "easy" terms. What can he do? A worker seeks a divorce, an annulment—or yearns to adopt a child. What legal steps are necessary?

It's simple to toss off the whole business by saying "see a lawyer." But it's surprising how frightened the average employee is of lawyers. He doesn't know which one to go to; he fears excessive fees. Therefore, he often turns to the company for advice.

Many firms have an informal procedure for handling such problems, taking care that any legal aid given to employees will not involve the company in any ensuing conflict. The service provided usually includes advice on where to go and how to handle situations. In practically no case does the company do the actual drawing up of the contract or will, or institute proceedings for employees. Almost every company, however, does maintain a list of local attorneys who will handle employee problems at reasonable cost.

In most firms the personnel department bears the brunt of helping employees find legal aid. Even when the company maintains a legal staff of its own, it's "Personnel" which makes the appointments and arrangements.

Few companies publicize legal aid. Handbooks are silent for the most part. Foremen, however, are told to send employees with troubles to the personnel department, if the employee is willing.

Here are a few specific procedures used by companies to help employees with legal problems:

American Cyanamid has a formalized method. One man in the company's legal department is assigned to handle employee problems. The company lawyer will listen to the worker's tale and then advise him whether or not he needs a lawyer in the first place. If the answer is "yes," the company representative will recommend a local lawyer and will tell the employee about how much to pay for the service.

U. S. Rubber also goes in for rather extensive legal aid. The company lawyer will look over contracts, leases, and other commitments and advise on precautions and pitfalls. If leases need changing or contracts call for extensive revision, or perhaps court action, the company's legal man will recommend a town attorney.

Budd Co. follows the practice of many companies situated in big cities. Employees are referred to a form of "legal

aid," the "Lawyers Reference Bureau," where for a small fee of $5.00 a worker can get half an hour's advice from a volunteer attorney not connected with the company. Budd, however, does set up appointments and follows through to see how the worker is making out with his legal predicament.

—*Employee Relations Bulletin* (National Foremen's Institute), January 2, 1952, p. 10:3.

Three and One-Half Years Average Time on Same Job

HOW LONG DO PEOPLE STAY on the same job? What kinds of work show the most stable employment? A sample survey by the U. S. Bureau of the Census in January, 1951, showed that the average U. S. worker had been with the same employer, or employed in the same locality at the same type of business, continuously for 3.4 years. One-fifth of the 59 million civilians employed in January, 1951, had remained with the same employer for 10 years or more, having obtained their jobs before World War II; the large majority, however, had entered their current jobs after the end of the war.

Sex and age influenced the duration of job holding. For men, the average (median) years on the same job were 3.9; for women, 2.2. For workers in the age group 55 to 64 years, the average was 8.0 years as compared with an average of 3.2 for the group 35 to 44 years of age.

Among occupational groups, farmers and farm managers led all the others; about half reported no job change during the last 10 years. About one-third of the proprietors and managers and about one-fourth of the craftsmen and professional workers were continuously employed for a decade or more on the same job; these workers outranked those in sales, service, and unskilled labor groups, who generally have less training and skill. Nonfarm laborers and private household workers reported the lowest average continuous employment on current job with 1.6 and 2.1 median years respectively.

—*Occupational Outlook Summary* (U. S. Dept. of Labor) 2/15/52

Free Trips: Reward for Deserving Employees

MANY COMPANIES are discovering the value of trips (ranging up to 1,000 miles) as rewards for deserving employees.

In all, some 900 companies throughout the country are giving—or have under consideration—trips as awards or prizes, and one air line has already employed a New York expert to give his entire time to developing the field.

The idea is not new. Before the war some companies awarded expense-paid vacation trips to outstanding workers, and frequently included wives in the invitation. But in those days the offer was usually made to stimulate sales. Now companies are broadening the plan's scope. Free trips have been offered for individual safety records, nonabsenteeism, good production, and suggestions on how to improve operations. A trucking company which offered free trips to drivers with the best safety records so reduced its accident rate that it saved some $70,000 in insurance premiums.

—*Nation's Business* 12/51

IF A WAR-TYPE MOBILIZATION of manpower were required in 1952, an estimated 72 million people would be available as civilian workers and for the armed forces, according to a study by the Twentieth Century Fund. In 1951 the United States had a civilian labor force of 63 million, and in 1944, a force of 54 million.

STOOL PIGEONS OR OPINION SURVEYS?

CURIOSITY may kill a cat, but it will never hurt an employer. The executive who isn't "all ears" over what his employees are thinking—about him and the company—isn't long for his job. The old-fashioned way of tapping employee opinion was the "stooge"—the apple polisher who, to ingratiate himself with the higher-ups, served as a pipeline.

One of the really positive features of the growth of unionism in this country is that it made it easier for the average Joe to air his grievances and thus apprise the employer about wrongs—alleged, real, or fancied. Grievance machinery has often been described as a "safety valve" which provides the worker with his inalienable right to let off steam.

While grievance machinery is one good way to keep a pulse on employee attitudes, it's by no means the only way management can judge the collective frame of mind of its people. A device called the "Employee Morale Survey"—or "Employee Opinion Poll"—has come into fashion the past five years. How accurate are the measurements made by professional pollsters of such a tenuous business as "employee morale" this writer is in no position to judge. Suffice it to say that pollsters are conscious of their past mistakes and are continuously revising their techniques to achieve more accurate gauges of what people think.

Labor relationswise, the trouble is not with the pollsters, but with management, in many cases. Top brass has often authorized an opinion poll in a moment of braggadocio—cocksure that the findings will show that every employee just loves his boss. And when the results show otherwise, the reports are relegated to dusty pigeonholes.

That's why it's so refreshing to see the healthy approach of the Cleveland Graphite Bronze Co. towards employee criticism. CGB management recently had a morale survey and published the results of its pulse-taking in a little pamphlet called "You Said It." It was distributed to employees, and the unadorned brickbats as well as bouquets were given a healthy airing.

The following is a breakdown of the favorable comments made by employees:

367 felt employees were treated well and that there was a human attitude toward workers.

322 said that CGB had good foremen and supervisors.

222 said that top management was fair; top bosses were friendly.

217 said that the work was interesting.

204 mentioned good hours or being on the best shift.

187 liked the steady work, permanent jobs.

141 liked the cafeteria.

54 said chances for advancement were good.

Here are some of the criticisms which were voiced:

119 felt too much pressure was placed on production.

374 were critical of foremen or supervisors, feeling they could be more considerate, or that they needed more training in handling men.

54 said top management was not cooperative, was indifferent toward helping employees get ahead, and never smiled.

20 felt that the work was boring and uninteresting.

164 said that there should be some change in the starting or stopping time of the shifts.

68 believed there were too many layoffs and had a feeling of insecurity.

117 criticized the cafeteria: It was not

open in the morning; prices were too high; the menu was not varied enough.

427 believed chances for advancement were poor or mentioned favoritism.

Said the company in conclusion:

"Your suggestions for improvement will all receive careful attention. Of course, we cannot guarantee to solve every problem brought to our attention. Where we can make improvements we shall do so. In some cases the problem is one of misinformation or lack of information. We shall try to keep you better informed of the reasons for certain policies and why we are compelled to do some things the way we do."

It is clear that opinion surveys, with all their faults, are still a big cut above stool pigeons.

—LAWRENCE STESSIN. *Forbes*, April 15, 1952, p. 28:1.

Keeping Communications Current

UNDER PRESSURE OF EMERGENCY PROBLEMS, employee communications have done a fade-out, even in many progressive firms. Some, nervously aware of this, are hastily backtracking to recover lost ground. There is a great deal that workers want to know—much of which calls for a new management approach. Here, for example, are some of the things they are concerned about right now:

If your operation relies principally on defense contracts, what will happen when current orders are filled?

If you can't or don't intend to do defense work, what are your chances of getting needed material and what will your market be?

If you have expanded, spent a lot of money on new facilities, are you in a position to stand a possible recession?

How did your company make out in 1951?

What do you think your prospects are for 1952 and after?

If you have hired a lot of new workers, what are their prospects for continued employment?

Each worker's attitude and effectiveness on the job and relation to his supervisor and the company depend to some extent on the answers to these questions.

Bulletin boards, letters to employees, memos to supervisors, employee newspapers, and group meetings all can be used to advantage. But communication also occurs with every management-employee contact. Management should make clear to supervisors that since they, too, play a very important role in maintaining morale—they should avoid careless statements that might impair workers' confidence in the firm.

To insure a high level of productivity and morale, employers should: (1) Recognize what employees want to know, and realize that an information vacuum will probably be filled with distortions; (2) remember that nothing management does is really done in privacy; (3) use every medium of communication available frequently and quickly, since belated information is sometimes worse than none at all.

—*Labor Report* (Research Institute of America, Inc., 292 Madison Avenue, New York 17, N. Y.) 2/9/52

OVER ONE-THIRD of the nearly 62 million civilians employed in the United States in October, according to a sample Census Bureau survey, were either operatives and kindred workers (most in manufacturing) or craftsmen, foremen, and kindred workers. About one-eighth were in clerical work, and one-tenth were working as managers, officials, and proprietors.

—*Occupational Outlook Summary* (U.S. Dept. of Labor) 11/15/52

BROADENING THE SCOPE OF THE EMPLOYEE PUBLICATION

FOR YEARS companies have shuddered at the thought that a single medium of communication could be developed of interest to several different groups associated in some way with a company. Professor Roscoe Ellard of the graduate school of journalism at Columbia University, on the other hand, sees the desirability of "bringing about a marriage of minds concerning the aims and purposes of management and employees and boards of directors, stockholders, and customers."

According to Professor Ellard, five aims and objectives the editor of an industrial (company) publication might well keep in mind are these:

1. To present—chiefly with news—a frank, believable, understandable medium of information to employees and stockholders on management problems, aims, plans, successes, and failures, even including the bad news with its background, the reasons for it, and what's being done about it.

2. To give employees a credible explanation of what they themselves are doing—of the importance and social significance of the commodity they are making.

3. To provide an understanding of the economic and historical phases of the day's news as it affects employees', stockholders', and directors' lives and their work. Professor Ellard suggests that "this needs to be done exclusively as a matter of idea in relationship to the individual—not ever in terms of political propaganda." He does not think "you can cram anti-Democratic party or anti-Republican party arguments as such down employees' throats."

4. To give employees interesting and human interest news of themselves in fresh, readable, accurate ways.

5. To talk believably, interestingly, and simultaneously to management, boards of directors, stockholders, employees, and customers.

—ROBERT NEWCOMB and MARG SAMMONS. *Advertising Age*, Vol. 22, No. 46.

College Grads Do Better

A DISPIRITED COLLEGE boy once wrote a verse which included these lines:

There'll come graduation,
I'll find occupation,
Existence that's meager and lean;
While he who digs ditches
Has cash in his breeches
And rides in a big limousine.

This was probably satire rather than truth when written. Today it would not even be good satire. Though more than half of all young people finish high school today, compared to 6 per cent 50 years ago, and 10 per cent finish college—the old figure was 2 per cent—the business and industrial demand for educated workers is apparently growing even faster.

Many fields that previously required a high school diploma now require a college education. In others, where a standard four-year course once served, a worker today does better if he has five or six years of college.

This trend is reflected at the New York University School of Business Administration, where the number of candidates studying for the Doctor of Philosophy degree increased 35 per cent in one academic year.

Says Dean G. Rowland Collins: "Only a few of our students plan to teach on

the college level, and even many of those who come to us with collegiate teaching as their aim find the levels of business employment to which they climb while studying for the Ph.D. so remunerative that they give up the idea of teaching."

Dean Collins expects this trend to increase, at least in his school.

—*Nation's Business* 3/52

Getting a New Personnel Policy Off to a Good Start

THE PERSONNEL DIRECTOR of a large food company was bothered by the fact that no matter how carefully thought out a new plan or policy might be, as soon as it was announced, individuals began to request that they be given special consideration. Though these situations were usually dealt with readily enough, confusion and sometimes resistance or resentment toward the new plan resulted, and it got off to an unfortunate start.

Today, when any new program is to be announced, this personnel chief goes to the file and selects at random 30 to 60 individual personnel cards, representing a cross section. He and his staff then check these cards against the proposed plan or policy.

Since the cards show age, marital status, length of service, salary history, home address, and other pertinent data, it is possible to see how each individual will be affected—before the announcement is made.

Sometimes this review reveals the need for minor changes in the plan or policy. More often, it anticipates exceptions or special cases which can be provided for in the original announcement to the organization. Occasionally, it calls attention to a few cases which must be handled on an individual basis, with a special explanation accompanying the original announcement to the persons affected.

In this way, the initial confusion is eliminated and the new program gets off to as favorable a start as possible.

—*Management Briefs* (Rogers, Slade & Hill) No. 46

New Facts About "Prolonged Illness"

MOUNTING EVIDENCE INDICATES that prolonged illness has become a critical problem in American industry. At any given payroll period in any given industry or business, from 3 to 6 per cent of the employees will be off the job because of prolonged illness, according to the Research Council for Economic Security. At present employment levels this means that between 2,500,000 and 3,000,000 employees are absent from work owing to such nonoccupational illness.

The Council points out that prolonged illness surveys are currently being conducted in selected companies in some 20 industries. The experience of over 100,000 employees is under study in these surveys. Furthermore, the surveys are gradually being extended to other industries, and it is planned eventually to cover the experience of at least 500,000 workers throughout the country.

Business concerns which desire further information about the continuing survey, as well as copies of the worksheets and instructions that are used in the survey, may secure them from the Research Council for Economic Security, 111 W. Jackson Boulevard, Chicago 4, Ill.

—*Commerce Magazine* 2/52

FIFTY-FOUR PER CENT of those participating in the Wage Earner Forum sponsored by McFadden Publications feel either that the Taft-Hartley Law is good as it stands or that it needs only a few changes and amendments. Fewer than one-fourth feel that the law needs drastic changes or should be repealed.

Also Recommended • • •

SOME ASPECTS OF AN INDUSTRIAL MENTAL HYGIENE PROGRAM. By Arthur Weider. *Journal of Applied Psychology* (1515 Massachusetts Avenue, N.W., Washington 5, D. C.), December, 1951. This paper is a follow-up study of some aspects of the comprehensive industrial mental hygiene program at the Caterpillar Tractor Company and includes an evaluation of the testing and employee counseling activities. Among the findings: In a group of 41 employees who were considered successfully counseled, an average duration of employment of 11 months was achieved, compared to 3.3 months for a group of 17 who were considered unsuccessfully counseled.

PIECEWORK EARNINGS IN INFLATION. By Martin L. Smith. *Personnel Journal* (Swarthmore, Penna.), April, 1952. Shows how errors introduced by the mechanics of time study and price-setting may obscure the actual significance of piecework earnings and cause wage stabilization controls to be ineffective—particularly in strongly organized industrial plants. The author cites examples from the experience of one incentive plant to show how piecework operations which were originally negotiated as protection against inflation for the individual have, instead, developed into a powerful inflationary force.

BLUEPRINT FOR A PLANT HEALTH PROGRAM. By W. E. Park. *Advanced Management* (Society for Advancement of Management, 84 William Street, New York 38, N. Y.), Vol. XVI, No. 10. This article defines the scope of a company health plan, points out how it can be administered and evaluated, and discusses the role of the registered nurse and physician within the plan. One way to assure the successful operation of the plan, the article points out, is to give the head of the service ready access to top management.

FEDERAL ACTION FOR LABOR'S HEALTH AND SAFETY. *Monthly Labor Review* (U. S. Government Printing Office, Washington 25, D. C.), March, 1952. Describes the Bureau of Labor Standards' program of industrial safety, which includes safety training courses, industry programs, appraisal of state safety activities, and the development of safety codes—all of which are designed to assist the states, private industry and labor to do a more comprehensive industrial safety job. In addition to studying occupational health hazards and developing preventive measures, the Division of Occupational Health is currently undertaking broad studies in the field of mental health.

RE-EMPLOYMENT RIGHTS OF THE RETURNING VETERAN. By William Hart. *Office Executive* (132 West Chelten Avenue, Philadelphia 44, Penna.), December, 1951. Discusses the problems management faces as a result of new legislation on the re-employment rights of veterans, changes in the obligations of the employer, and complications which may arise in the course of job shifts, "bumping," etc. The author describes how one company met the problem by a veterans' re-employment committee which has succeeded in reaching acceptable decisions in individual cases.

AN EVALUATION OF COMPANY LITERATURE. By Charles A. Hardwick. *School and College Placement* (123 South Broad Street, Philadelphia 9, Penna.), December, 1951. The main purpose of this paper is to determine what should be included in company literature used in college recruiting and to develop a clearer understanding of its purpose, usefulness and limitations. Includes a list of practical, specific suggestions for preparing effective literature for distribution to potential job candidates. The author advises not to over-glamorize employment prospects and to avoid the use of high-pressure "display" advertising.

READY FOR DISASTER. *National Safety News* (North Michigan Avenue, Chicago 11, Ill.), March, 1952. This checklist of the fundamentals of a disaster relief plan should be helpful in setting up an organization which will minimize destruction and panic in the event of any kind of disaster, from flood or tornado to the action of hostile aircraft. The discussion of plant defense organization includes the details of an emergency medical service training program and a list of suggested first-aid supplies and equipment.

ECONOMIC INCENTIVES AND HUMAN RELATIONS. By Melville Dalton. *Industrial Productivity* (Industrial Relations Research Association, Park and University, Temp. 3, Room 5, Madison 5, Wisc.), December, 1951. This 15-page article discusses some of the problems of applying wage incentives and offers some concrete suggestions for making incentives more workable. Among Mr. Dalton's recommendations are: rewards to workmen for short-cut methods; uniform and valid tests for promotion; training programs that will develop workmen's skills; continual study and revision of standards; uniform rates; and a simplified formula, which will make it easy for the workman to calculate his bonus.

INCREASING PRODUCTIVITY OF OFFICE MACHINE OPERATORS

OVER THE PAST few years, progressive offices have gained the advantages of mechanization, of more modern equipment, and of systems improvements. While these have increased production and reduced costs, there still are many opportunities for increasing productivity on an *individual* basis, without resorting to "speed-up" tactics. Take office machine operations, for example.

In industry, where many automatic machines are used, it often will be found that the machine paces the operator and that the principal gains in production are made in the factors which lie outside the machine speed. In the office, however, we still are prone to put the emphasis on the speed of the operator in operating the machine and neglect the outside factors—the time required for such elements as "get ready" and "put away," for example—which may have an even greater effect on productivity.

A good example of this is in the use of the most common office machine—the typewriter. Let us look at the typist's job to see if increased machine speed is the most fruitful area for increasing productivity.

In the course of time studies made in one stenographic department for the purpose of establishing clerical work standards, it was found that on the average the typewriter was in operation only about 40 per cent of the time. In other words, 60 per cent of the typist's time was spent on other activities, most of which apparently were essential to completion of the finished product. This part of the time consisted of several elements, among which were the following: (1) collate paper and carbon paper; (2) insert paper in typewriter; (3) prepare to type (listen to dictated matter, etc.); (4) correct errors; (5) get instructions from supervisor; (6) remove paper from typewriter; (7) check work; (8) rest; (9) clean machine.

Let us assume that a beginning typist should be able to type at least 50 words a minute. At this rate, with 40 per cent machine time, a typist would produce an average of 20 net words a minute for an eight-hour day. In order to increase this average to 25 words a minute for the working day, entirely through increased typing speed, it would be necessary to increase the speed 25 per cent—to 62.5 words per minute during the actual typing time, as compared to 50.

The difficulties of increasing operator speed are readily apparent. First, the operator must be willing to put forth the extra effort to increase her speed. Unless there are some tangible incentives in the way of remuneration, she is not likely to react favorably to suggestions for increased typing speed. The cost of training to increase speed is also a consideration. If the training is given on company time, such time is non-productive. Finally, under present turnover conditions, the company may never benefit from the training.

But if, instead of the "speed-up" approach, the "machine time" can be increased 25 per cent—from 40 per cent to 50 per cent of the working day—we can increase the number of net words per minute to 25 and, in most cases, actually *reduce* effort on the part of the

operator. The techniques for increasing machine time consist simply of *decreasing* "other" time. A typical breakdown of a typist's time may appear as follows:

1. Actual typing	40%
2. Insert paper in machine	10%
3. Remove paper from machine	5%
4. Check work	5%
5. Prepare to type	10%
6. Erase and correct errors	7%
7. Rest	6%
8. Miscellaneous	17%

Obviously, the first element to scrutinize would be "miscellaneous." What does this time consist of? How much of it can be eliminated? If part of it consists of carrying work to dictators, would it be less expensive to have such deliveries made through messenger service?

One very fruitful area for reducing non-machine time is in work-place layout. If a typist spends 10 per cent of her time —48 minutes a day—collating paper and carbon paper and inserting it in the typewriter, a desk-top rack may help to reduce this time. Even the design of the rack may make a difference. Why not place letterheads, carbon paper and copy paper on alternate shelves so they can be collated as they are withdrawn from the rack? In one instance, the installation of such a rack, plus a special homemade copyholder, increased production 36 per cent for a group of copy typists. The use of a special tray, properly located, for holding such items as erasers, eraser shields, paper clips, etc., also helped to organize the workplace, thereby eliminating the shuffling of papers or opening and closing of desk drawers to find these items.

What has been said about typing operations applies equally to the operation of other office machines. The element that "produces" is machine time. Keep that time high, and productivity will be high.

—C. H. Dent. *The Office Economist*, March-April, 1952, p. 6:2.

Proofreaders Screen Letters

LETTERS ARE AS REPRESENTATIVE of a company as its salable products and services. How to produce quality correspondence consistently is a problem faced by many businesses. The American Tobacco Co. solved it by routing letters through a proofreading division.

Ten college graduates, usually English or journalism majors, see that all letters conform in setup and appearance to the company's correspondence policy. They read transcribed letters and form letters for errors in grammar, punctuation, and spelling; edit for coherence; and check letters against a file to make sure that all information, such as addresses, dates, and references, is correct. When errors are found, suggested corrections are submitted (on separate slips of paper) to the correspondents for approval.

In addition to creating good will through quality correspondence, this system saves time and eliminates quibbling. Stenographers and correspondents, puzzled over the correct use of hyphens, the spelling of words, or correct grammar can refer such questions to the proofreaders for quick settlement.

—*American Business* 4/52

Safety Campaigns for Office Workers

THE POPULAR NOTION that accidents happen only to plant workers is gradually being dispelled. More and more companies, recognizing that there are hazards in the office too, are redesigning and adapting shop safety programs to the special needs of office employees.

Some surprising statistics have helped this trend along. For example, a midwestern

telephone company reports that the frequency rate for its office force is higher than for its outside linemen.

One simple visual reminder of the need for safety in the office is the lively layout shown at the bottom of this page, developed by the National Safety Council. It can be very effectively reproduced in the employee house organ or as a poster on the bulletin board. It is obtainable in the latter form, enlarged and in color, from the National Safety Council's headquarters at 425 North Michigan Avenue, Chicago 11, Ill.

—*Supervisor's News Service* (Bureau of Business Practice, New London, Conn.) 2/18/52

TEN LITTLE OFFICE WORKERS—ALAS!

10

office workers
feeling fit and fine
one scorned the handrail
then there were nine.

9

office workers
hurrying for a date
pencil lying on the floor
whoops! Now it's eight.

8

office workers
thoughts 'way up in heaven
one slammed hand on filing spike
that left only seven.

7

office workers
trying out some tricks
one jerked a chair away
now there were six.

6

office workers
tired from too much jive
one forgot the open door
so there were five.

5

office workers
'round the corners tore
one had too big a load
that left only four.

4

office workers
helpful as could be
one yanked hard on heavy drawer
then there were three.

3

office workers
one could be you
someone "fixed" a light cord
and that left two.

2

office workers
running in a hall
met head on at corner
now there's one—that's all!

1

office worker
when his task was done
tilted back his chair too far
guess what—now there's none!

10

office workers
all the worse for wear
from now on they'll be happy
using sense and care.

SOLVING THE CLERICAL SHORTAGE: START IN YOUR OWN OFFICE!

WHATEVER yardstick you use, the fact remains that there are fewer qualified job applicants than there are jobs. And there's practically no clerical unemployment! Worst of all, the situation is getting worse.

As an employer, however, there are several things you can do to improve your company's position:

Loosen up on your pay policy. This may be a little hard to stomach, but you are going to have to pay more for a replacement, in all probability, than a small increase in salary might mean.

Improve working conditions. If you've been planning to air-condition, to buy new furniture, to replace old typewriters, or to redecorate, do it now. When you do, it's a good idea to merchandise the improvements to your present employees.

Buy labor-saving equipment. This is probably the best—and the most economic—answer. Not only does it take care of a clerical shortage now, but the new equipment will continue to pay dividends year after year. Here are a few examples:

1. With dictating machines two girls can do the work of three.
2. With electric typewriters two girls can often do more than the work of three.
3. With photographic record equipment one invoicing clerk can do the work of seven.
4. With a pegboard a clerk can prepare sales summaries five times as fast.
5. With an electric perforator one clerk working part time can do the full-time work of five.
6. With automatic typing equipment one girl can do the work of four or five.

These are just a few examples. If the clerical shortage forces you to modernize and mechanize, it may well be a blessing in disguise.

—*Management Methods*, March, 1952, p. 26.

Office Workers' Pay Up, Survey Shows

GROSS WEEKLY PAY of non-supervisory clerical workers in New York State manufacturing establishments averaged $61.64 in November, 1951, while that of supervisory office personnel in the same plants averaged $114.41 a week, according to a survey made recently by the State Labor Department's Division of Placement and Unemployment Insurance. Of the 315,000 office workers in these plants, 97,000, or a little over 30 per cent were classed as supervisory. Average pay figures include overtime, night work, and other premium payments, before deductions.

The pay of male supervisors averaged $118.17 a week as against $80.74 for women. In the non-supervisory group, men earned $77.97 and women $52.29. Both groups showed increases in weekly pay over 1950—8 per cent for supervisory and 9 per cent for other office workers compared with a 7 per cent rise for production workers.

In the non-supervisory group, made up of such personnel as clerks, typists, stenographers, bookkeepers, and timekeepers, two out of three employees were women, while among supervisory employees—including superintendents, plant and office managers, as well as responsible technical, professional and administrative staff—only one out of every 10 was a woman.

Earnings of supervisors were considerably higher in New York City than in the remainder of the State, but non-supervisory men averaged $85.83 a week upstate as against $70.10 in the city, while non-supervisory women in the city earned $52.57 compared with $51.98 upstate. Comparatively higher earnings of male clerical workers upstate are attributed to greater work demands in defense-connected industry.

SHOULD THE QUANTITY ORDERED be left off the receiving department's copy of the purchase order? Is the blind check most effective? One analyst discovered that the receiving clerk was simply using the packing list to report the quantity received, instead of making an actual count.

—*Office Executive* 4/52

Also Recommended . . .

THE OFFICE IS THE HUB OF THE NEW LINCOLN ELECTRIC CO. PLANT. By Walter Rudolph. *The Office* (270 Madison Avenue, New York 16, N. Y.), April, 1952. In Lincoln's new plant (Cleveland), the office is located in the center of the structure, where it can do the most good with the least effort. Other economies are effected through Lincoln's famed incentive system, a stenographic pool, a piecework basis for office workers' pay, and efficient modern equipment, including a telephone recording system for dictation, shared by a number of persons.

KEEPING EMPLOYEE ADDRESSES UP-TO-DATE. *Office Management* (212 Fifth Avenue, New York 10, N. Y.), April, 1952. A faulty method of maintaining up-to-date employee home address lists can cause several difficulties, the author points out. This article describes the routines being followed by a few large corporations for maintaining accurate employee address lists and presents illustrations of the forms used.

THE FUNDAMENTALS OF FILING. By Dorothy Aldrich Pickett. *The Office* (270 Madison Avenue, New York 16, N. Y.), December, 1951. This discussion of the methods and techniques to be used in creating and maintaining an efficient file department includes several specific suggestions for solving filing problems. In this comprehensive article such aspects of filing as styles of file folders, alphabetic indexing, the file manual, and the file index, are explained and illustrated.

IS PRINTING YOUR HEADACHE? By Albert Pleydell. *Office Executive* (132 West Chelten Avenue, Philadelphia 44, Penna.), April, 1952. This discussion of printing from the office executive's viewpoint stresses the importance of a full knowledge of printing for economical requistioning and purchase. The author describes briefly the techniques and uses of three basic printing methods—letterpress, offset, and intaglio—and gives some practical suggestions for keeping printing costs to a minumum.

FIVE KEYS TO BETTER REPORT WRITING. By Louis A. Allen. *Mill & Factory* (205 East 42 Street, New York 17, N. Y.), April, 1952. Completeness, clarity, and conciseness characterize the effective report, the author points out, and outlines five steps which can be taken to achieve these objectives. Practical suggestions are given on how to gather and organize facts, compose a rough draft, and prepare the final copy.

TURN PAPERWORK INTO WORKING PAPER. By Fred Shelton, Jr. *Office Executive* (132 West Chelten Avenue, Philadelphia 44, Penna.), April, 1952. Shows how an analysis of the flow of paperwork can build and maintain high production at low cost and describes such work simplification tools as horizontal flow charts, flow process charts, flow diagram charts, operational charts, men-and-desk charts, and job breakdown charts. Three basic principles to keep in mind, the author points out, are (1) develop a straight-line flow of work; (2) conserve employee time; and (3) save space.

Manufacturing Management

THE INVENTOR: VANISHING AMERICAN

ASKED to name a few inventors, the normally intelligent youngster might mention Benjamin Franklin, Eli Whitney, and Robert Fulton. He would be at a loss, however, to name even one contemporary American inventor. Nor would the average adult fare much better. For the free-lancer has almost disappeared. To the corporate inventor, the employee of the industrial research department, the member of the research team, must go credit for improvements of the Wright Brothers' airplane, development of Diesel's engine, and refinements in Kelly's steelmaking process.

However, the corporate inventor is an inventor in the same sense that the buttonhole-maker in a garment factory is a tailor or the Detroit assembly worker a carbuilder. Today, inventions are mass-produced on a scientific assembly line named the industrial research laboratory. To develop independent wheel suspension ("knee action"), General Motors mathematicians calculated spring rates, centers of oscillation, and steering geometry; designers planned the mechanism, draftsmen drew up blueprints, and tool and die makers constructed experimental working models. Metallurgists puzzled out problems of selecting and treating metals; mechanical engineers analyzed and, together with other scientists, corrected operational failings of successive working models. To these were added the services of more designers, chassis engineers, production experts, test engineers, and other specialists. The contemporary Eli Whitney is thus a congeries of scientists working cooperatively under unified direction.

What of the free-lance inventor? An inkling of the status of inventors outside the industrial laboratory can be seen from a survey made by former Patent Office examiner, Joseph Rossman. Of 710 inventors questioned by Mr. Rossman, only 2 per cent invented on a full-time basis. The reasons are obvious. Lack of finances, the occupational disease of all inventors beyond the protective pale of the industrial laboratory, frequently obliges them to give up alarmingly high percentages of their inventions in order to cover costs of experimentation, construction of working models, and patents. Having obtained sufficient funds, the inventor must still do battle with the cold and unreceptive world, for *status quo* is a steel door shutting off the inventor not only from original development capital but also from markets for his invention. Should the inventor be fortunate enough to obtain a purchaser, his problems are far from solved. He must still contend with that strange and wondrous system of legal metaphysics called the patent law. And if he surmounts this hurdle, the individual inventor must compete with the industrial research laboratory; peddling an invention frequently becomes the foolish game of selling Blue Coal to some Newcastle coal magnate. Confronted by this obstacle course, it is small wonder that the potential inventor foregoes the possibility of glory and fame for the security of the research laboratory or the university professorship.

Nor is it to be wondered that sources for new and startling inventions are drying up, that numerically fewer inventions are being produced. For invention is

essentially an illogical act, frequently the product of improbable and strange stimuli. It involves illogical curiosity, an insatiable desire to solve the insoluble, and complete independence in the application of inventive genius. These attributes do not properly belong in industrial research laboratories, nor are they present in the average corporate inventor. As a result, there has been, as one observer puts it, a "falling off in basic or revolutionary invention, such as we associate with Morse, DeForest, Sperry, Edison, and like outstanding inventors." Of the "revolutionary" inventions developed between 1889 and 1929, only 12 came from the industrial laboratory. Even more significant has been the numerical decline in inventions. Since 1885 the number of patents per unit of population has been decreasing; in the past 19 years there has been a net drop as well. Fewer patents were granted in 1947 than in 1890, when the population in the United States was half as great.

In the meantime, our population grows older, our natural resources dwindle, our internal economy cannot feed parasitically on itself. The unique contribution of the individual inventor is needed now as never before. Recognition, a process which underlies solution, entails some of the following factors:

1. Invention, as a creative art, may be more akin to poetry than machinery. In essence, the inventor does with gears and electron tubes what the writer does with words or the artist with paint. Yet only the inventor is strictly excluded from subsidy and support by foundations and others dedicated to the advancement of art, progress, and sundry measures. Nor are there available such other sources as federal funds and grants from industry and from universities.

2. Educational methods may be able to instill among students an ability and a desire to invent or, at least, an appreciation of the inventor's problems. Carroll L. Wilson, a noted midwestern consultant, suggests that in the natural sciences greater emphasis should be placed on the untrammeled, imaginative search for new concepts and new truths.

3. The U. S. patent law could be modified to afford greater protection to the individual inventor, whose limited financial resources do not enable him to do battle with the present legal system. One authority puts it this way: "The history of most outstanding inventions in the past is to a large extent the story of the inventor spending much or most of his profits suing for infringement."

4. Finally, there exists a national need for tolerance of inventors, as of all nonconforming individualists. Deep-rooted prejudices against change prevent many a worthwhile idea from getting a fair hearing. An enlightened approach to invention cannot be legislated; it must spring from within the national consciousness itself. It must represent a new awareness that the progress of U. S. technology, and with it that of the economy, is slowing down and that the individual inventor, with his basic and revolutionary ideas, is as necessary to the Brave New World as is the corporate inventor, with his logical progression of improvement and change.

—*Forbes*, December 15, 1951, p. 12:4.

PRODUCTION SUGGESTIONS saved an estimated 200 million man-hours of work per year—equivalent to a full year's work for about 80,000 workers—during World War II, when the popularity of idea systems was at its peak. The Army says it saved more than $100 million through "employee" suggestions alone since 1943.

—*Steel* 12/10/51

SHOULD YOU FARM OUT WORK?

SUBCONTRACTING, having proved its worth during the last war and the postwar period, will be given serious consideration in the months ahead by manufacturers who have not previously operated in this way.

What are the advantages of farming out work? Subcontracting is of value to firms trying to reach any one of these objectives quickly: take on government work with minimum interference with normal activity; supplement facilities in order to handle more complicated government business than present equipment permits; break bottlenecks of machinery or manpower; comply with government pressure for decentralization; help distributors faced with sharp cutbacks of consumer durables.

For the newcomer to the field, working through subs poses many dangers. The following recommendations should be helpful in deciding whether you should get into subcontracting, and how to proceed if you do:

Using subcontracting to break bottlenecks. Although subcontracting has proved of value in such emergencies, as the machine tool shortage grows, idle time in subcontract shops will dwindle. You may therefore be unable to place your emergency work. If you can find free machine time, try to confine your contracts to nearby facilities. Experienced operators favor concentrating subcontracts within a 100-150 mile radius, for reasons of cost, speed, and closer cooperation.

Using subcontracts to handle an added production load. Subcontracting will often permit a firm to step up total output without investing heavily in additional equipment. In this case subcontracting usually requires careful advance planning, as well as close integration of the subs into the prime's schedules and operation. Also, for dependable service, the prime contractor must be willing to keep his subs reasonably well employed and to share work with them during slow periods.

Using subcontracts for entire work sections. Some prime contractors give subcontracts for substantial parts of a project. On "hardware items," for example, major subassemblies may be subcontracted. In soft goods, weaving as well as dyeing and finishing of an entire lot may be given over to a sub.

Because of the size of the contracts involved, this practice is usually limited to very large companies. It enables them to pass a substantial share of the contract responsibility to other major manufacturers who, in turn, often split the work up for sub-subcontractors.

Regardless of why you use subs, you'll have to decide what types of jobs to include in your subcontracts. Many leading operators prefer to limit subcontractors to relatively simple work, because they feel smaller shops have lower engineering standards. A few primes, lucky enough to locate highly skilled machine shops, have been able to reverse this procedure and much of their precision work, especially on subassemblies, is done outside. Although both techniques combine advantages and disadvantages, experienced operators are almost unanimous on this point: don't farm out work for complex parts with close tolerances, or work which involves special engineering, until you've had sufficient experience with the sub or unless he can prove successful past performance on other exacting jobs.

How can the prime locate promising shops? Some large primes use special "facilities scouts"; others maintain elaborate departments to survey and evaluate all actual and potential suppliers. Few smaller companies can afford such elab-

orate procedures, but they can make use of the following:

Contract assistance program. This is a plan initiated by the Department of Commerce with the cooperation of local Chambers of Commerce, which encourages smaller manufacturers to file full data on their facilities. The local group then acts as a clearinghouse, matching primes' requests against the data submitted.

Procurement agencies. If you are doing military work you will often find that the Defense Department has already surveyed available industrial facilities in your field and may guide you to potential subcontractors. In addition, many of the government procurement agencies receive almost daily inquiries regarding available contracts and may be able to refer you to interested companies.

Local trade organizations. These have on file data which can be used as a guide to available subcontracting facilities. Also, don't overlook the detailed information which many utility companies can give you about local industrial facilities.

—*Operations Report* (Research Institute of America, 292 Madison Avenue, New York 17, N. Y.), December 18, 1951.

Good Maintenance Turns Waste to Profit

GOOD MAINTENANCE means more than just good housekeeping at McCulloch Motors Corporation, Los Angeles. It also results in a saving of thousands of dollars monthly from salvaged materials.

A unique plant-designed system has been devised for efficiently separating scrap, which is then resmeltered and reclaimed. McCulloch had, in the past, detailed large crews of janitors to the clean-up job until the firm found that employing maintenance men simply to sweep up was more costly than having the machinists take a few minutes of their time for cleaning up at the shift's end. Now, the machinists, working at approximately 1,500 machines, do the job. They dump scrap into convenient barrels (equipped with wheels) or sweep it into the aisles during a 5-10-minute, end-of-shift, cleanup time. Two maintenance men with power sweepers then clean the aisles.

Another feature of the salvage system requires that all scrap be dumped into six specially-built outdoor salvage bins, each intended for a different type of scrap. The bins are mounted on lifting devices, and each holds about three cu. yds. of scrap. Mounted over them is a 1½-ton monorail-supported hoist, equipped with a scale. As salvage trucks arrive at the area, the hoist raises a bin, weighs it, and dumps the scrap into a waiting truck. The weighing process gives the plant a check on the amount of outgoing scrap.

—*Mill & Factory* 4/52

Top Money for Dormant Scrap

THERE is often more money in scrap than might be suspected. Several steps are commonly overlooked in plant-wide cleanup campaigns and in selling pieces of equipment:

The scrap value of worn-out items isn't checked against accurate figures on the cost of reconditioning. Many plants over-spend for equipment because they arbitrarily scrap items that could be profitably re-used. Others go to the opposite extreme and hang on to *all* doubtful items because no one has clear-cut authority to condemn them.

The company hangs on to equipment because cost analysis shows no immediate profit in scrapping it and it may be usable as reserves. An overly conservative policy is usually expensive in the long run because of high maintenance and repair

costs. Whether to hold or discard equipment that is still usable can be determined fairly accurately by these tests: Can the same work be accomplished on other units? What were the maintenance and repair costs over the past year? How soon would you be forced to replace the equipment? What are the costs of dismantling? How much could be realized from scrap?

In many companies no one follows up on salvage parts and materials to see that they're promptly reconditioned for re-use. This can be remedied by (1) establishing a rule that as soon as an item is tagged for reconditioning, a ticket must be filled out specifying the exact kind of work to be done; (2) keeping a central stores record of all salvaged parts and materials; and (3) assigning one person to check these records to see how reconditioning work is progressing.

Efficient scrap collection and handling includes segregating scrap at the point of generation and keeping it uncontaminated to the point of shipment. Some companies do this but don't get the maximum net return from scrap because they make the following common mistakes:

Segregation isn't carried through to different types of the same material. For example, steel scrap is collected all together instead of separately as tool, stainless, silicon, carbon, etc.

Relative profit of prepared vs. unprepared scrap isn't determined. Though top prices go for scrap prepared according to recognized standards, it may cost too much to get the stuff into the required shape.

A substantial change in the type of scrap is not followed by an appraisal of the best method for selling it. For example, a company can lose on negotiated sales unless it knows the in's and out's of the values and the various markets.

—*Operations Report* (Research Institute of America, Inc., 292 Madison Avenue, New York 17, N. Y.) 12/18/51

"Sorry to cause this little inconvenience Mr. Buttle, but this is my first day on the drop hammer!"

Reproduced by permission of *Mill & Factory*

IMPROVING EFFICIENCY THROUGH THE "MANAGEMENT AUDIT"

How do you make 170,000 people more efficient in doing 170,000 separate jobs? The answer, the Air Force's Air Materiel Command believes, is that you don't. They must do the biggest part themselves, largely because they know more about their jobs than you do.

First, teach them how to go about it. Provide them with the tools for improvement. Show them how to make a personal analysis and correct deficiencies. Then stand by to help. That is the thinking behind AMC's new Management Improvement program—one of the broadest ever attempted by industry or government.

The program is broad because it reaches the commanding general—and the man who sweeps out the general's office. It makes each realize step by step what he is doing and sets him wondering if he could do it better in less time. Thus the man in the shop finds that by rearranging tools, he increases productivity; the labor foreman, by using automatic machinery, can load and unload cars at an accelerated rate; a division chief finds that a new system of scheduling gets more convoys underway in a given period. Methods improvements are everyday occurrences at AMC because everyone has been made a part of the management audit program. The over-all result has been a dramatic reduction of overhead costs and greatly increased efficiency at all levels.

This is how the program works:

All employees are requested to fill out daily activity forms recording in detail just what they did over a period of about one week. Each employee is invited to make suggestions on how to streamline his job. If his ideas are good, there are special rewards, including cash awards and pay increases for civilians.

Methods analysts are appointed from within the offices or shops to be studied and are trained in management improvement techniques. These analysts assist the employees in completion of forms and make an initial audit of the forms.

Program monitors, about one for every five analysts, are trained to assist the analysts and make further audit of the forms.

The Management Engineering Office lends guidance to these monitors, makes an over-all evaluation of data collected, and forwards required reports to higher headquarters.

In the initial audit, the methods analysts prepare current and proposed organizational and functional charts for their operating units. Physical layout charts are drawn up, as are work flow charts and records of supplies and equipment on hand as contrasted to those deemed necessary. Systematic consolidations of this information with that found on the daily activity sheets are compiled by the analysts with help from other members of the audit team, and an initial audit report is drawn up, listing findings and recommendations.

The audit team seeks answers to such questions as these:

Is maximum use made of personnel and of present equipment?

Is there overlapping of functions? Duplication of responsibilities?

Are channels of authority clearly defined? Does every employee know to whom he reports and who reports to him?

Is recognition given in tangible form for outstanding services?

Are new employees given sufficient orientation and training?

Are there bottlenecks? What is being done to eliminate them?

Are work units identified and standards developed? Are the standards too high? Too low?

But the work does not stop with the initial audit. A continuing review by the

methods analysts and others responsible seeks constant improvement. The analysts prepare management progress reports every 90 days to be forwarded to the AMC Comptroller. As another means of follow-up, periodic audits are conducted among the various units to check on their progress.

The following quotation from a letter to all employees from the AMC Commanding General illustrates the approach that has been used to enlist worker support of the programs: "Maybe you're a little skeptical about this term, 'management audit.' The management audit team is made up of people like yourself, who are especially trained, however, to study a work unit and come up with some helpful suggestions on improved work methods and organization. These audit people aren't coming into your shop to put anybody on the spot, to slash job allotments, or to write adverse reports. The sole purpose of this audit is to improve our work methods, to utilize our people better. The members of the audit team come as helpers—not as investigators."

"Hide and Seek"—A Wasteful Game

SOME COMPANIES support organized recreational programs for employees. But no firm can afford the wasteful "games" of hide and seek that spring up when tools and supplies are borrowed or hoarded. Sometimes these wasteful practices become so routine that they are accepted as part of the daily job. Let's take a look at some actual examples.

Consider the case of the repairman who uses a variety of company hand tools. He doesn't think of them as his and therefore leaves them on the workbench. Other repairmen use them too. Borrowing becomes a habit. Pretty soon no one knows where the tools can be found. To avoid this game of "finders—keepers," supervisors should take the following steps:

1. Identify all tools and equipment. If workers supply any of their own tools, suggest that they label them.
2. Fix responsibility for the care and storage of tools and equipment.
3. Provide adequate facilities for the protection and storage of tools.
4. Control the replacement of tools and supplies by checking all cases of loss or excessive breakage.

Hoarding of supplies leads to another kind of game. Let's follow a hoarder as he visits the storeroom. He needs only a few bolts and some lockwashers. But, as usual, he picks up plenty of spares—"just to be on the safe side." Later, when other people need parts, there's a problem. Supervisors can avoid such hoarding by having tighter requisitioning and storeroom controls.

Some supervisors find that such items as parts, trucks, and containers are not on hand when needed. Peak periods may increase the need for them. If they are not available, then the borrowing begins. Proper departmental markings alone do not always solve the problem. What else can a supervisor do? Here are some ideas:

1. Check production schedules against needs.
2. Work closely with fellow supervisors to eliminate bottlenecks—the high points and low points of demand for these items.
3. Check on improper use. Trucks, for example, may be out of circulation because they are being used as temporary storage bins.

—*Management Information* (Elliott Service Co., 30 N. MacQuesten Parkway, Mount Vernon, N. Y.) 4/28/52

IS LASTING PEACE possible until there are more bones than dogs?

—*Banking* 12/51

Also Recommended • • •

PLANT-WIDE PLANNING STRETCHES NEW EQUIPMENT DOLLARS. By Miles J. Rowan. *American Machinist* (330 West 42 Street, New York 36, N. Y.), March 17, 1952. This is a description of how the MAPI method of re-equipment analysis operates in one company to insure maximum return on new equipment dollars, facilitate long-range planning, and provide flexibility to meet fluctuating current requirements. The article includes reproductions of standard analysis forms, which permit comparison of new machines, and cites several examples of typical job improvements which have been made possible by this method.

CONTROLLING QUALITY BY A DIFFERENT PROCESS. *Production Engineering and Management* (2842 West Grand Boulevard, Detroit 2, Mich.), December, 1951. Steady increases in operator skill and substantial cost savings have resulted from a system of quality control, described in this article, whereby each supervisor is wholly responsible for the quality of the work performed in his unit and each operator is held responsible for the accuracy and quality of his work. Use of this system in one large company has made possible a reduction of about 30 people in the inspection and quality control groups and savings of about 50 per cent of the company's scrap and rework costs.

PURCHASING AS A PART OF GENERAL MANAGEMENT. By Charles Lukens Huston, Jr. *Purchasing* (205 East 42 Street, New York 17, N. Y.), March, 1952. In this discussion of the reasons why the head of purchasing should participate in top management councils, the author points out that he generally spends about 50 per cent of a company's gross income, and therefore plays an important role in determining the volume and quality of production, selling price, and net income. He also indicates how the purchasing manager may gain recognition from general management by making contributions above those normally expected.

FACTORS AFFECTING INTER-PLANT DIFFERENCES IN PRODUCTIVITY. By Samuel Thompson. *Industrial Productivity* (Industrial Relations Research Association, Park and University, Temp. 3, Room 5, Madison 5, Wisc.), December, 1951. In this discussion of inter-plant productivity differences attributable to the factors of capital equipment, volume of production, and methods of production planning, the author cites data which indicate that the labor expended per unit of output between plants producing the same or similar products varies as much as 30 to 50 per cent both ways from the mean. It is hoped that factory performance studies begun by the Bureau of Labor Statistics in 1951 will provide a link between measurement of productivity at the workbench to measurement of productivity in the industry.

TOOLING: VERSATILITY HARNESSED TO A MACHINE. *Steel* (Penton Building, Cleveland 13, Ohio), March 10, 1952. The problem of increasing productivity per man-hour per machine while reducing scrap is complicated by obsolete machinery, tight materials and the shortage of skilled help. A partial solution, as this article points out, is the application of precision control methods and equipment. Among the specific methods and equipment cited in this article is an electronic caliper used with an electric amplifier which makes possible the precision gauging of work in units varying from .0001 to .00001 inch.

THE HOUSEKEEPING PROGRAM. *National Safety News* (North Michigan Avenue, Chicago 11, Ill.), March, 1952. All the elements of a successful housekeeping program for industry are covered in this article, including the design of the plant, equipment, supplies, the care of floors, etc. The section on cleaning methods and supplies should be particularly useful and have wide application.

10 KEY STEPS YOU CAN TAKE FOR BETTER MAINTENANCE SERVICE. By James Stone. *Factory Management and Maintenance* (330 West 42 Street, New York 36, N. Y.), December, 1951. This article describes a remedial program one company instituted in its maintenance department to improve job coordination, cost control, worker morale, and production-maintenance relations. To assure the plan's success and to insure support of those affected by it, the plan was explained in advance to maintenance supervisors, craftsmen, and the labor bargaining unit.

ACCIDENT HAZARDS SPOTTED BY GENEROUS USE OF PAINT. *Textile World* (330 West 42 Street, New York 36, N. Y.), March, 1952. This is an account of how one mill shop improved its safety record by the use of bright-colored paint to call attention to hazardous areas. The color program, supplemented by safety meetings, has resulted in a sharp drop in minor accidents and near-injuries, and an increase in employee efficiency.

Marketing Management

SALES TRAINING RESEARCH

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A CLOSE LOOK at the development of sales training in this country over the past 30 years indicates that the practice of training salesmen has grown from a device used by a relatively few business organizations into a generally accepted function of sales management in most well-established companies. There are even signs which point toward a standardization in the organization of the sales training department or section, as such.

Accompanying the widespread application of sales training, there has been the broadening of training objectives. New goals have been found, and the content of the training curriculum has been adjusted to accommodate this expansion. In addition, there has been a more extensive utilization of the many methods and media available for the presentation of this subject matter.

A diligent search for developments which affect the fundamental philosophy or the basic methodology of sales training, however, is not fruitful. There are only two: The first is the introduction of films and film strips as training media; and the second is the establishment of a professional society of sales trainers. Otherwise, the curriculum development techniques, the content, methods, and media used in the twenties are still being utilized today, with only slight modification.

One reason that could be advanced for this anomalous situation is that sales training practitioners have failed to delve deeply enough into their methods and procedures—in short, research into this function of sales management has been inadequate. As a result, the one area of research which could yield data of fundamental significance—measurement—has been either insufficiently or ineffectively explored. Evaluation is certainly a prerequisite of progress. If little effort has been expended toward measuring the effectiveness of sales training, and thereby pointing out its strengths and weaknesses, and if sales training has advanced only because management feels that it is valuable—without any real proof of its effectiveness—then, obviously, this lack may be the basic cause for the limited progress which sales training has made.

What has actually been done to evaluate training? Efforts to find descriptions of attempts are not very rewarding. Claims for results brought about by the training are, of course, quite plentiful. A study of the literature in the field yields three descriptions of careful evaluative efforts, one in 1930, another in 1938, and a third in 1941, and only one of these attempts is worthy of note. I refer to the third, an experiment conducted by the Armstrong Cork Company.[1]

[1] "The Career Idea in Sales Training: Why Armstrong Men Stick and Succeed." *Sales Management*, October 10, 1938, pp. 9-12.

Adapted from an address given before the Boston Conference, American Marketing Association (Teachers' Panel Session) in December, 1951.

Yet the costs of training salesmen have grown into a significant portion of the total costs of distribution. For example, 500 executives representing companies employing more than 20,000 salesmen indicated, in response to a survey conducted by National Sales Executives, that it costs them approximately $2,000 to train a salesman today, and a one-year period is required for the training. The total costs for training replacements for this group alone, therefore, must amount to 40 million dollars.

Considering the vast sum expended for sales training, the lack of effort to justify these expenditures through scientific appraisal of their results is quite remarkable. What are the reasons for this failure? Is it possible that the effectiveness of sales training cannot be measured?

Many reasons or excuses have been advanced to explain the lack of evaluation. The relative newness of the field, the hidden nature of training costs, the *a priori* acceptance of the results of training by management, and the high costs of measurement have all been cited. Probably all are valid. Yet evaluation not only can be done; it must be done.

The answer is contained in the word *research* or careful scientific study of all the aspects of sales training. Where to start? Education or teaching is very closely related to sales training since training is teaching. The progress made in this field is, therefore, well worth exploring. Educators have used achievement tests to measure the progress of a student for a considerable length of time. About 100 years ago, Horace Mann showed a remarkable insight into the importance of examinations and the limitations of the forms then in existence. As long ago as 1910, the technique of scientific test construction was developed through the use of the experimental method, and since then, rules have been devised for the construction of various types of objective tests. Scientific study of the more common essay examination has also pointed up the advantages and limitations of this traditional type of test. In addition, the need for the application of statistical techniques to test scores resulted in the development of the field of educational statistics. In short, educators have presented one means by which learning may be measured scientifically.[2]

The methods of educational research should be explored and adapted to the needs of sales training, just as the methods of psychological research have been utilized in advertising. Thus far relatively too much effort has gone into the techniques of training, and too much emphasis has been placed on "gimmicks" to make sales training interesting. At the same time, too little effort has been devoted to careful research to determine ways of measuring the effectiveness of the techniques.

In the field of education lies one basis for a method of measuring the effectiveness of sales training. Careful study is required to determine the necessary techniques. Evaluation requires objectivity, a comprehension of education and educational measurement, and an understanding of the marketing process. Sales executives must consider sales training research an integral part of the function of the sales training department.

There is no time to lose in tackling this problem. The coming year will present a stern challenge to the sales managers of the country. Today a distressing shortage

[2] This is not to imply other approaches to such measurement may not prove effective. It should also be pointed out, obviously, that the amount of formal learning acquired is not always synonymous with the amount actually applied in performance of a job.

of effective salesmen exists. Forward-looking sales executives are now thinking in terms of expanded training programs to increase the efficiency of the men on their staffs. If these programs are to be an improvement over the lackluster efforts of the past, then an energetic research effort must be made now.

What to Tell a New Salesman About Advertising

WHAT SHOULD A NEW SALESMAN be told about the advertising department? *Printers' Ink* recently listed these points:

1. Tell him how the advertising is prepared. Don't be afraid to bore him with techniques.
2. Provide him with a list of the functions of the department so that he will know what the department can do for him.
3. Tell your new salesman exactly how the agency operates in relation to your company.
4. Tell him how much the company spends for advertising. If policy is to keep this information secret, tell the new man this and give him approximate information.
5. What is the company's advertising history? Is it a new advertiser? Show him the kind of advertising you used to do and tell him why the company became an advertiser.
6. Introduce the new man to the people in the advertising department. Show him that it is being run in an efficient, businesslike manner.
7. Show him your competitor's advertising.
8. To whom is the advertising department responsible? Tell him specifically why and to whom the advertising manager reports.

Industrial Salesmen's Earnings—1951

HOW MUCH do industrial salesmen earn and what methods are used to pay them? To learn the answers to these and related questions, *Industrial Marketing* conducted a survey of 91 representative sales managers in a variety of industries. Here are some of the survey results:

More than half of the companies reporting listed average salesmen's incomes in the $5,000 to $8,000 group. Some 17 companies reported average incomes between $7,000 and $8,000; 16 listed incomes between $6,000 and $7,000; and 14 listed incomes between $5,000 and $6,000. The average industrial salesman thus earned slightly more than $8,000 last year.

Highest individual incomes were reported in electric controls and machine tools. The $56,000 income of a salesman of electric controls was the highest individual income reported in the survey. Three machine tool manufacturers reported top incomes ranging from $21,161 to $25,000.

Of the 91 sales managers reporting, 75 said that their salesmen's incomes had increased in 1951. In these companies, the average income increase was 18 per cent. Asked what caused the increase, 52 sales managers listed increased sales volume, and 32 sales managers listed a higher salary base. Other reasons mentioned for increased income included product price increases, competition from other industries, improved sales control, higher bonus, and increased individual effort.

The most common method of compensation was the combination of salary plus commission. Fifty sales managers reported using this method, 28 paid a straight salary, and 10 used a straight commission. Two companies paid a salary plus bonus, and one company a commission plus bonus.

WHEN CUSTOMERS MISTRUST SALESMEN

THERE WOULD BE mistrust of sales people even if every customer in the world always received more than a fair and square deal. A feeling of uncertainty on the part of customers, which keeps them on guard against duplicity, is inherent in the sales situation. We can see how this operates by looking into some sales situations where mistrust is most likely to rear its ugly head.

When unfamiliar with quality standards. The customer knows little about the quality of many items he buys, and knows he does not know. His lack of confidence in his own judgment leads him to mistrust the person from whom he is buying; his self-doubt becomes doubt of others.

What this customer needs, of course, is guidance in making his selections, but if he is helped too obviously he may think that something is being put over on him.

When buying occasional-purchase articles. The customer's uncertainty—and resulting suspicion—is greater when buying articles which are purchased only occasionally, since he has less experience with these and feels more at sea when sizing up what is available. There is more mistrust when buying an oil burner than when buying fuel oil for it. As a result, burner salesmen are paid higher commissions than oil salesmen.

When more money is involved. Not much suspicion is shown by a normal person buying an inexpensive alarm clock, but there is likely to be considerable mistrust when the same person buys a high-quality wrist watch. Normal caution becomes natural suspicion.

When the salesmaker seeks out the prospect. When a salesman calls at a customer's office to interest him in a product, he, not the customer, is using the initiative. The customer feels that the salesman is intruding, that he is being pounced on in his own realm. His suspicions increase in proportion to the abruptness of the intrusion.

Since outside salesmakers are up against more defensive mistrust than other sales people, they should go slowly in the first contacts to establish friendly rapport and win confidence.

When subterfuge is used. "Good morning, sir. Our president asked me to call on you." Such an approach is sometimes used by salesmen on cold canvasses to locate prospective buyers. It flatters the prospect's self-regard and makes it easier for the sales person to get in. But it soon dawns on all but the most stupid customers that it is a trick—and from then on the sales person has an uphill job.

When the salesman is too eager to sell. Since successful sales people usually are on the aggressive side, they arouse suspicion by their very attitude. This over-insistence is something which people who have a love of selling should keep under control. Like powder and paint, sales effort should be there, but not too obvious. There is mistrust when prospects feel they are being sold, less when they feel they are buying.

When new products are offered. With most people, unfamiliarity increases mistrust. The long struggles before markets were created for reapers, safety razors, and zippers are well-known examples of mistrust of the new.

Preference for nationally-branded merchandise also reflects mistrust of new products. Surveys show that more than 80 per cent of customers buy such articles as soap, razor blades, and baby foods by brand names.

Another aspect of familiarity and mistrust is that customers in city stores are usually less trusting than those in small-

town stores. The city customer is dealing with strangers much of the time, and keeps his guard up. The small-town customer is dealing with an acquaintance, and this familiarity increases confidence. Some city sales people have succeeded in overcoming mistrust by building up a following of regular customers.

—DONALD A. LAIRD. *Sales Management*, Vol. 66, No. 3, p. 82:2.

START SELLING—OR ELSE

AMERICAN INDUSTRY does a tremendous job of producing the 5,000,000 different items needed by the nation's economy. Sales and distribution programs in many companies, however, are not as efficient as methods of production, and salesmanship has not kept pace with America's enormous industrial capacity.

The salesman's job is getting more difficult, if only for one factor that few people consider. The five-day work week, which is now almost universal, has reduced his calls by as much as 16 per cent under the number he could make when the six-day week was common. And when he does get in to see an executive, he finds his prospect fighting to keep under control a mounting pile of paper work. This makes it imperative that the salesman present his case without a wasted word or motion. It also increases the need for effective sales training programs.

What constitutes a good training program? The effective salesman must be thoroughly conversant with the merchandise he is selling. Manufacturers must therefore teach both the mechanics and application of their devices to salesmen in order to market products and related services successfully. This type of instruction should be supplemented by hard, down-to-earth pounding of the territory. Apprentice salesmen should be teamed with experienced men and given the opportunity to learn by doing.

There are many devices that can be used to improve the quality of salesmanship. One experiment tried by Remington Rand proved useful. The company had salesmen in all its branches make recordings of actual demonstrations to potential customers, then played back each man's record. The salesman thus learned how he could correct sloppy diction, improve his choice of words, and make his sales talk shorter and more convincing.

In one branch the company had a psychologist draw up a list of questions to determine the self-motivation factors that distinguish the top salesman. The questions were designed to show the range of a man's social interests in his community, his knowledge of economics, his ability as a public speaker, and whether he was an extrovert (preferred) or an introvert. The answers were then evaluated by the branch manager, the psychologist, and the man himself and steps taken to correct weaknesses.

One point brought out by this experiment was that a salesman must change his tactics and, indeed, his entire attitude with fluctuating economic conditions. The man who stands still will find himself gathering nothing more than the crumbs left by more alert, progressive competitors.

Despite high taxes and rising costs, the nation's disposable income—or purchasing power—has shown an average annual increase of 10.4 per cent in the past decade. An appreciable share of this purchasing power can be tapped by creative salesmanship that stimulates a need for some article or service that is not an established

element of living standards. This is the most challenging aspect of selling and one which requires more effort and enterprise.

How much business can be created by intelligent, resourceful salesmanship? It has been estimated that approximately one-third of all sales are created by manufacturers' representatives whose products meet a customer's half-conscious desire for a refinement that will contribute to home comfort or business efficiency.

How is this demand created? Markets are people. A salesman must therefore study people—shifts and trends in population and income groups.

The salesman must also keep a check on his accounts so that he doesn't make too many or too few calls on a customer. He must be able to forecast each account's volume of business so that he can set his sights on a fair share of the business each account places in open competition.

That's only half the story. If the salesman is selling heavy equipment or services tailored to a customer's specifications, he must be prepared to suggest and sell preventive maintenance. Calls checking on the performance of machines and their installation do not bring immediate commissions, but they do build up good will that results in future sales.

Above all, sales executives and salesmen today must remember that the problem of selling all the goods American industrial genius can produce involves more than private profits and creature comforts. Full-scale employment is at stake, for each salesman creates, directly or indirectly, the business activity that supports 30 other people and upon which the continued prosperity and the preservation of the free enterprise system depend. The reverse of that system is the "—Or Else" of the proposition.

—AL N. SEARES. *Nation's Business*, December, 1951, p. 45:4.

Manufacturers and Distributors Work Together

DISTRIBUTOR-MANUFACTURER cooperation is now becoming a two-way street. Manufacturers are becoming increasingly aware of the value of distributors' viewpoints, ideas, and suggestions and are approaching distributors for firsthand information and advice. Distributors are responding capably.

Advisory committees, comprised of representative distributors in the manufacturer's system, have recently been set up by some manufacturers. Their function is to meet occasionally to discuss problems affecting both parties and to suggest equitable solutions.

Other manufacturers have set up similar committees. However, instead of meeting together, the distributors are apprized of problems by mail and invited to give ideas and suggest solutions.

Another indication of the greater weight being given to distributors' views is the encouragement some manufacturers give to distributors' visits to the supplier's headquarters for meetings with top officials. In some cases, distributors are being invited to manufacturers' sales conferences to acquaint suppliers' officials and sales staffs with the distributor's viewpoint and his problems. The reverse process is also being applied—top management of suppliers is visiting distributors more frequently.

—*Industrial Distribution* 4/52

COST OF OPERATING SALESMEN'S CARS: A SURVEY

THE AVERAGE COST of operating a salesman's automobile for one mile today is almost one cent more than it was in 1945 and is more than 2½ cents more than in 1940. Average annual mileage driven by salesmen in covering their territories is just under 20,000.

These are among the findings of a recent *Printers' Ink* study of policies affecting the operation of salesmen's automobiles. The following is a digest of the survey findings, based on returns from 35 companies.

The number of cars operated by 33 of the 35 companies (two did not answer this question) totals 10,620. Number of cars operated by individual companies ranges from 5 to 2,000. Company-owned cars dominate both in number of companies and number of cars.

Annual mileage covered averages 19,791; the total annual mileage of the cars of companies surveyed is approximately 21,374,280.

Average operating cost per mile today is 6.288 cents, compared with 5.393 cents in 1945 and 3.744 cents in 1940.

Average payment by companies that pay their salesmen a flat rate per mile for operation of their cars is 6.55 cents—a fraction of a cent more than today's average operating cost of 6.29 cents. Most of the companies that pay a flat rate have increased the payment per mile by one cent or more in the past five years. Companies that do not pay a flat rate reimburse salesmen for actual out-of-pocket expenses and, in some cases, for fixed costs and depreciation.

Salesmen who drive their own cars usually are not reimbursed directly when they buy a new car, but some companies include depreciation or a new car allowance in their flat rate. Companies that do provide some form of new-car allowance have increased the allowance in the past five years.

Definite trade-in policies usually are established for company-owned or leased cars (but not for salesman-owned cars), with most companies trading in cars when they are between one and two years old and have had between 20,000 and 40,000 mileage.

There is no uniform policy on insurance coverage either in types or amounts carried. Most companies, however, carry or insist their salesmen carry public liability and property damage. Some also carry comprehensive (fire, theft, etc.) insurance but very few carry collision. About half the companies that answered the question do not reimburse salesmen who pay for insurance on their own cars; the other half do have plans whereby salesmen can recoup their out-of-pocket costs.

Questions concerned with other recent changes show some companies switching to company-owned or leased cars from salesmen-owned cars and a few changing to compensation on a gross basis under which salesmen pay all their own expenses.

—By EDWARD J. DEVER, JR. *Printers' Ink*, December 28, 1951, p. 27:5.

Planned Sales Calls a Rising Trend

MANY SALES MANAGERS, as a result of the current lag in sales, are giving thought to insuring that salesmen will make better use of their selling time.

It is the cherished theory of some sales executives that if they do a thorough training job their salesmen can get along without very much supervision. But with the growing pressure for orders a good many advocates of letting salesmen manage

themselves have changed their tune. There is now a swing back to planned calls, with the home office doing more of the planning.

A typical example of planned calls is a program developed by Crane Company. The sales department takes each salesman's customers and prospective customers, and estimates (with the collaboration of the territorial salesman and district manager) the reasonable sales expectancy of each account for the coming year. On the basis of these estimates, the territorial salesman's available number of working hours is allocated to the various accounts. Preferred customers—those of greatest potential value to the company—get more calls and more sales attention than those of lesser value.

Another device used by Westinghouse is the customer survey. Most salesmen feel they are so well acquainted with their territories that they know who is worth a call and who is not. Yet there is a lot of potential business in accounts salesmen imagine are not worth a call. Therefore, the company sets up a survey plan, and requires each salesman to call on every account and prospective customer to obtain certain specific information. In getting the information, the salesman makes a sales contact—even if it is indirect. Orders usually result.

There is also the call schedule for which the American Tobacco Company became famous. Each man gets a list of calls he is supposed to make during the coming week, when he is to make them, and what he is to sell each account over and above what the customer has "on the hook" for him. The aim is twofold: To get more sales coverage and to require salesmen to be more than order-takers.

—*News Letter* (The Dartnell Corporation) 4/5/52

What Sales Managers Want on Control Forms

TO DEVISE an adequate sales control form, Russell Baker, sales promotion and research manager of Irvington Varnish and Insulator Co., Irvington, N. J., asked the company's sales managers to examine sales control forms used by industrial firms in key areas. After studying the type of information others were after, sales managers came up with the following list of items they would like information about on control forms:

1. Names and titles of persons interviewed, along with name and address of account.
2. Name of salesman handling the account.
3. Date account was opened.
4. Relative size of account in terms of dollar volume.
5. Total dollar sales made in previous two years to the account.
6. Estimated amount account would buy in current year.
7. Potential amount account could buy in current year.
8. Total number of sales calls at account to date.
9. Total dollar and unit sales: monthly, cumulative, and end-of-year.
10. Number of sales calls made each month.
11. Sales by product.

—HARRY KURSH in *Sales Management* 3/15/52

Retail Salespersons Only 68 Per Cent Efficient

RESULTS of a nationwide survey of retailing's selling techniques and performance, made regularly by the Willmark Service System, have been recently tabulated by *Tide*.

After querying 40,000 retail outlets, from department stores to loan offices and

bakeries, the researchers concluded that, on the basis of productivity, salespersons were efficient only to an extent approximating 68 per cent of an acceptable norm (1.4 per cent below the 1950 level and 3.2 per cent under 1949's high of 76.6 per cent).

Efficiency dropped in almost every category of performance and fell most particularly in the creative phases of the sale, those requiring initiative and persuasive effort and classified as "trading up" and "suggestion selling." The appearance of salespersons generally improved (up .1 per cent), but their compliance with store systems worsened. Biggest offenders (those salespersons becoming more and more "mere change-makers and order-takers") were found primarily among sales clerks in department and specialty stores, variety stores, men's wear establishments, and drug stores (food stores continued first in sales efficiency).

—National Sales Executives Digest 2/52

Also Recommended • • •

WHAT AND WHERE TO BUILD. By Robert Armstrong. *Retail Control* (100 West 31 Street, New York 1, N. Y.), March, 1952. Choice of location, space requirements, and terms of occupancy are major factors in the success of retail branch operations, according to the author of this article. He discusses in some detail parking space and other facilities, lease-back arrangements, percentage leases, etc., and advises the retail branch operator to overestimate his needs and to sublet, since piecemeal expansion often means loss of efficiency and unnecessarily high costs.

WHAT OUR AGING POPULATION MEANS TO MARKETING. By Vergil D. Reed and Ruth R. Reed. *Advertising Agency* (48 West 38 Street, New York 18, N. Y.), April, 1952. Never underestimate the power of the elders as a market, advises this practical article. Industry is advised to redesign jobs to fit older workers and adapt products and services to the needs of those 65 years old and more, with emphasis on health foods, travel and recreation items, smaller food units, special housing, and stores planned to minimize walking.

HOW TO SET A SALES QUOTA. *Printers' Ink* (205 East 42 Street, New York 17, N.Y.), February 8, 1952. This report of the *Printers' Ink* Sales Executives Clinic discusses the factors involved in developing a sound, realistic quota system, including the mechanics of accurate forecasting and personal relations between the sales manager and individual salesmen. The article quotes the advice of experienced sales managers on such subjects as territory breakdown, over-all quotas, weighting factors, and follow-up.

YOU CAN HIRE SALESMEN FASTER WITH THIS INTERVIEW TECHNIQUE. By Richard S. Schultz. *Industrial Marketing* (200 E. Illinois Street, Chicago, Ill.), December, 1951. To conduct a successful interview with applicants for sales jobs, the sales manager should be able to listen and to ask questions which stimulate the applicant to talk about the right things. Mr. Schultz suggests eight specific questions which are a good basis for the interview; none of these permit a yes or no answer.

RANK IN POPULATION, RETAIL SALES, INCOME —ALL CITIES WITH SALES $20 MILLION AND OVER. *Sales Management* (386 Fourth Avenue, New York 16, N. Y.), November 10, 1951. This article presents tables and charts, containing information on 844 U. S. cities and 46 in Canada, which are designed to aid marketing executives in setting sales quotas and apportioning local advertising pressure. The survey on which these data are based showed that our biggest cities may be high in volume but low in quality. For example, though New York City absorbs more passenger cars than any other market, in terms of cars sold per 1,000 families it is at the bottom of the list.

ADVERTISING THAT SELLS IS TAX DEDUCTIBLE. By J. K. Lasser. *Advertising Agency* (48 West 38 Street, New York 18, N.Y.), February, 1952. According to this well-known expert on taxation, the tax authorities will consider advertising expenditures deductible business expenses *if* the intention is to protect or increase business. By means of hypothetical examples, Mr. Lasser shows how dollars which would ordinarily be taxed as excess profits can be invested in advertising to increase sales and thereby increase net profits.

MANAGEMENT OF BUSINESS UNDER INFLATION*

WALTER H. GROSS, DAVID D. JACOBS, and STANLEY O. SARGIS †

THE PRESENT inflationary movement has stimulated some serious inquiries into the whole field of business management under conditions of inflation. In this article, we shall attempt to outline what generally may be considered good business practice in dealing with the economic problems of an inflationary period.

In recent years this country has taken some long strides along the inflationary road, and it behooves us as business men to examine the effect upon business of a continued upward change in the level of prices. If we consider now the possible problems inherent in an inflationary period, we may more competently and intelligently differentiate between sound and unsound action. The threat of inflation is becoming more pronounced all the time—our job as business men is to keep this in mind and to take protective measures.

PRICE MOVEMENTS

Since 1932, consumers' and wholesale prices in the United States have moved upward rather sharply as shown in the accompanying table. This trend reveals a dangerous situation.

For the purpose of this discussion, "inflation" will mean a sustained, rapid rise of dangerous proportions in commodity prices or, conversely, a similar decline in the purchasing power of the dollar. During a period of rapidly rising prices, business managers will be confronted by acute problems.

Year	Consumers' Price Index 1935-39=100	Wholesale Price Index 1926=100
	(Monthly Average)	
1932	97.6	64.8
1937	102.7	86.3
1941	105.2	87.3
1945	128.6	105.8
1946	139.5	121.1
1947	159.6	152.1
1948	171.9	165.1
1949	170.2	155.0
1950	171.9	161.5
1951	185.6	180.5

SOURCE: *Handbook of Labor Statistics*, U. S. Department of Labor, 1950 edition.

DECLINE IN MONEY VALUE

Let us now turn to a consideration of the effects upon business of a decline in the value of money. A business enterprise seeks to realize money profits from invested capital by transactions connected with the purchase and subsequently the sale of goods or services. A period of rising prices stimulates the demand for goods. Thus, whenever the general level of prices rises, regardless of the cause, there is a tendency to buy in advance of need, employment is encouraged, and it is easy to sell.

The most fundamental problem of business deals with the relationship between cost and selling price. The degree of control exercised over this relationship is never more likely to reflect the success

* This article reflects the conclusions reached at an AMA Workshop Seminar on "Meeting the Problems Imposed on Corporate Financial Practice by Declining Dollar Values," held at The Palmer House, Chicago, March 5-7, 1952.

† Mr. Gross is Assistant Treasurer, Mr. Jacobs is Staff Vice President and Controller, and Mr. Sargis is Financial Staff Assistant, at the International Harvester Company.

or failure of a business than it is during inflation. During periods of relative stability, management has rather complete control over the flow of values between various asset accounts and between asset and liability or ownership accounts. This flow of value is, however, seriously distorted by the economic dislocations which accompany inflationary movements. In other words, management's control of the relation between costs and selling prices is impaired to a large extent by external forces, and only an alert management can avoid liquidating itself during such periods. A rather simple example will make this last point a bit clearer. During inflation the deterioration of a currency becomes obvious when a business man finds that to purchase an article for $50 and to sell it later for $100 does not produce a real profit if the value of the dollar has fallen meanwhile by 50 per cent. Since taxes must be paid on the apparent profit, the business man has, as a matter of fact, liquidated a portion of his capital. In a continuing business, profit, strictly defined, is the excess of the proceeds of sales over the money needed to replace the assets which have been used up—not the excess over the original outlay on the assets used up.

PRESERVING WORKING CAPITAL DURING INFLATION

The need to preserve capital intact is an elementary and universally accepted principle of business. Beset as the world is at the present time by so many economic problems, there is a danger that this fundamental principle may be overlooked. During a period of inflation it is more necessary than ever that it should be in the forefront of our minds and be applied properly in every business decision. Furthermore, under our democratic system it is vital that this principle be understood by all elements of society.

Let us turn our attention to the problems of preserving working capital in an inflationary period. We need not assume an extreme type of inflation to demonstrate the effects of rising prices upon working capital; the rise in prices in recent years has furnished ample evidence of what can be expected. Company after company has already found it necessary either to borrow or acquire new equity capital in the post-war period in order to maintain its working capital at adequate levels. In addition to this, it will be found, in many instances, that companies are using their working capital more intensively, turning over their working capital (inventory, particularly) more often currently than they ever did in the past. For instance, one large company in the heavy equipment business, which was turning over its working capital once every 12 months in 1942, is now turning over working capital every 4.7 months. A salient characteristic of the economy of several countries which experienced a lengthy inflation was the lack of working capital for business. This deficiency, it may be said, is the essence of the problem of capital preservation during such a period.

The working capital of a business necessarily assumes the form of money at a given phase of its cycle of turnover. If, during the "cash to cash" cycle, the currency depreciates and prices are not increased proportionately, the business man no longer possesses sufficient capital to replenish his inventory, buy machinery, or pay wages, with the result that production has to be reduced. Because of the limits imposed by public authorities, it often happens during an inflation that selling prices are not adjusted to the fall in the value of money. In the recent Chinese inflation, by the time the government had approved price increases, the new costs of production had risen sub-

stantially. Hence, prices for finished goods were, more often than not, less than the costs of producing them on a replacement basis.

MINIMIZING WORKING CAPITAL LOSSES

There are certain preparatory steps which may be taken to minimize working capital losses arising from inflation. Insofar as inventory is concerned, it would be well to regulate the flow of supplies and make certain that suppliers are financially strong. This seems advisable in view of the difficulties of acquiring commodities usually encountered when demand is intense. The imposition of government materials controls would, of course, limit companies' purchasing policies.

Because suppliers, as everyone else, will also experience a shortage of working capital, it will be a wise policy either to make certain they are financially strong, as mentioned above, or, as an alternative, develop greater integration now. In the degree that a company owns raw material sources, it is relatively immune to the ordinary interruptions of supply arising from inflation. However, possibilities of improving the degree of integration of company operations should be examined fully and dispassionately before inflation takes place. In the great German inflation of the 1920's, the companies which created vertical organizations during the inflation generally found themselves in serious difficulties. Sudden integration during an abnormal period becomes too complex for an inexperienced management. Unless a company is experienced with the problems of integration, such action will probably not prove advantageous.

USE OF LIFO

During inflation the pricing policy of business firms increases in importance in direct proportion to the length of the working capital turnover period. The length of the production process places a practical limit upon the number of times a manufacturing company may turn over its work-in-process inventory. In an inflationary period raw materials and finished goods will turn over rapidly. We should expect that industry will, unless prevented by government, set its selling prices to recover the cost of replacement. This means that during inflation profits for tax purposes are inflated by low costs; these inflated profits are taxed, and business is in the unhappy position of making a profit while being unable to replace the materials and services used in the same volume. The government is thus obtaining part of its revenue by consuming the capital of industry.

To a great extent the effect of taxation of inflated profits can be ameliorated by the use of the LIFO method for inventory valuation. Under this method costs of the latest purchases and production are charged against income, while under the more conventional method such costs are used for inventory valuation, leaving less inflated costs as charges against income. However, LIFO does not result in charging full replacement cost to income, particularly when prices are rising rapidly, owing to the purchase of production in advance of sale, during which time the price level changes. With runaway inflation, the chances are that it would be very difficult to maintain a normal inventory, with the result that a smaller inventory would exist at the end of a year than at the beginning. Under LIFO this would necessitate a charge to income of part of the low value pertaining to the beginning inventory, resulting in a high taxable profit thereon. Nevertheless, total taxes paid under LIFO in an inflationary period should be considerably lower than under any other recognized system. Thus use of this method would help to maintain working capital position.

REALISTIC PRICING NECESSARY

The difference between the consumption of materials and fixed assets is merely a difference in time. Normally a company will consume and replace its inventory several times a year while consuming its fixed assets over a period of years. But the principle of recovering in selling prices the replacement cost of these assets is always pertinent. In an inflationary period a recovery of original cost will permit replacement of smaller and smaller quantities. Realism in pricing cannot be overemphasized. The products of a company should not be sold unless they can be sold at a real profit.

In the handling of raw material purchases, special care must be exercised in buying beyond the natural requirements of the business. During inflation, a company's ability to do so will probably be limited by a dearth of such commodities, working capital limitations, and, probably, governmental control. It is dangerous to speculate during inflation, and it must be recognized that the spirit of speculation spreads like a contagious disease, often diverting people from their proper and regular functions. Experience has shown that the businesses which followed a policy of concentration on the true function of the enterprise during inflation were more likely to survive. The principal object at all times should be to reduce costs of production and distribution and to maintain adequate selling prices.

MAINTAINING AN ADEQUATE CASH BALANCE

Business receivables will constitute the most formidable problem in an inflationary period. Being a dollar asset, these become worthless as the dollar depreciates in purchasing power. The companies which extend longer term credit will find that a restriction of such credit is imperative. In regard to notes and accounts receivable on hand, every effort should be made to collect these as rapidly as possible. Notes receivable should be eliminated completely and accounts receivable kept at a nominal figure. In regard to future sales, the policy, obviously, should be to operate as near to a cash sales basis as possible. Under the economic demoralization resulting from inflation, it becomes impossible in many cases to fulfill contracts—e.g., account contracts—because many debtors become bankrupt before the maturity date. In respect to current sales, if credit has to be extended, this credit may be made payable in terms of units of acceptable commodities.

Under conditions of inflation, cash and cash assets are depreciating; therefore, these assets must be handled with more than ordinary care and foresight. Ready funds must be on hand for payrolls, taxes, and invoice payments. It is, of course, essential that the turnover of cash be rapid and that cash resources be used effectively. While cash resources should, theoretically, be kept at a sound minimum, in practice it is advisable to keep them strong. The problem of cash is much more likely to be one of having adequate supplies to finance operations under inflation than one of protecting excess supplies of cash. In appraising the maximum cash requirements and the minimum cash resources required to meet the demands for cash, little reliance should be placed upon the ability to borrow. As inflation progresses, it becomes difficult to borrow, and interest rates are proportionately higher. In the recent Chinese inflation, the rise in interest rates paralleled the rise in commodity prices. The attractions of borrowing disappear when the lender begins to ask for a rate of interest high enough to compensate for the depreciation of the currency.

It is unlikely that many firms will be troubled with the problem of investing

excess cash resources, but if such a situation should develop these funds may be invested in desirable commodities, if these are available and if storage can be arranged. Funds might also be applied to the retirement of preferred stock, since, in such a period, a fixed income-bearing security will appear unattractive to holders. The possibility of investing in foreign currencies, etc., as a practical matter, does not offer much promise (with the possible exception of Canada). Funds might be applied to the purchase of common stocks of companies favorably situated. During the great German inflation, industrial and commercial firms considered the purchase of shares not only as a form of investment for reserve capital but also as a temporary use for liquid resources.

MAINTAINING RATIO BETWEEN FIXED AND CURRENT ASSETS

Inflation acts as a temptation to increase the ratio of fixed assets to current assets, a pattern we can see developing currently. Since the squeeze on working capital becomes oppressive when rising prices and plant expansion take place concurrently, there is a tendency, during an inflationary period, to increase plant and equipment indiscriminately—the urge to transform assets into material goods is difficult to resist. However, uneconomic aggregates of productive facilities ultimately require readjustment and usually end disastrously. Management should, under no circumstances, lose sight of the objective of maintaining low costs. During the current inflation in France, one large company which has consistently followed this objective is now reaping the benefits of that policy. It has never had to petition the government to increase the prices of its products. Prices have been readjusted upward adequately because its "competitors," being higher-cost producers, have had to seek relief for themselves. The result has been very satisfactory for the low-cost producer.

Instead of merely expanding, a company should concentrate upon its technical methods of production and distribution. Business men must at all times make choices and decisions. Even during an inflation, complex relationships may be reduced to basic principles.

THE IMPORTANCE OF A SOUND CAPITAL STRUCTURE

It is sometimes suggested that it is advantageous for a company to be in debt in time of severe inflation. This is likely to be an illusion. The reason is, of course, that during inflation almost all industries are in desperate need of additional capital if they are to continue to operate, and they are unlikely to be in a position to repay debt even with depreciated currency. At the same time, the existence of debt makes it more difficult to obtain the additional capital required. The policy of maintaining a strong and flexible capital structure has the great merit of being sound practice regardless of whether or not inflation takes place.

Probably one of the most pertinent observations made by Breciani-Turroni in his work entitled *The Economics of Inflation,* a study of the great German inflation of the twenties, is quoted below:

> On the whole the good fortune of the speculators, who had profited largely from the inflation, was of short duration. No new aristocracy of captains of industry arose from it. After the monetary stabilization the direction of German industry and commerce was once more in the hands of the old captains, or of their heirs and successors.

This observation supports the axiom that a sound organization and rational management will, in the final analysis, prove successful. The same basic business principles which are so effective during periods of stability hold true in periods of great instability.

The Changing Pattern of the Corporate Bond Market

THE FEDERAL RESERVE BANK of New York has just published a study of the changing structure of the corporate bond market.

The market for corporate bonds today is found almost exclusively among life insurance companies and other institutional investors, the study finds in its monthly review. As a result, the role of the investment banker has been very greatly curtailed. Neither lender nor borrower is dependent upon him now to any essential degree.

In the past three years, in fact, private placements have accounted for over 52 per cent of all corporate bond financing, and public offerings for less than 48 per cent. Even these percentages fall far short of measuring the great extent to which the investment banker's role has been curtailed by changed long-term corporate lending practices. In private placements, the investment banker is either eliminated entirely or demoted to the part of an intermediary to help negotiate a deal between two principals for a quite modest fee. Public offerings remain important only in the railroad and public utility fields. And, in these, issues are now usually sold by competitive bidding, which fosters a most intense and direct kind of competition among investment bankers, rather than by private negotiation with the investment banker.

—*Journal of Commerce* 4/28/52

Federal Taxes Bite Deeper

STATISTICS REVEAL that aggregate federal income and excess profits taxes paid in 1951 by only 50 companies listed on the New York Stock Exchange exceeded the entire budget of the Federal Government for as recent a year as 1928. Total income and excess profits taxes paid by these 50 companies last year were $3,186,142,000. The federal budget for the fiscal year ended June 30, 1928, amounted to $3,103,000,000.

The 1951 federal tax bill of these 50 enterprises exceeded the amount of taxes the same corporations paid to the government in 1950 by $716,527,000, or 29 per cent. Their aggregate 1951 federal tax bill was $1,215,753,000, or nearly 62 per cent, larger than their total net income.

Of the 50 companies cited, a mere eight paid federal taxes in 1951 which were less than the amount paid in 1950.

A dozen of the corporations listed paid taxes to the government last year which were equivalent—per share of common stock of the particular company—to roughly twice, or more, the actual common share earnings.

The Exchange 4/52

Pass the Dinosaur

IN A WORLD OF CONSTANTLY MOUNTING PRESSURES, higher taxes, nervous strains, growing mortalities, and uncertainties of every kind, we clutch at every optimistic straw that comes our way. Today we are pleased to note that price controls were recently removed from such "nonedible" foods as clay pigeons and dinosaur skeletons; also from sundials, cigarette-rolling machines, bowling pins, and wax fruit. The O.P.S. said these are not important in the economic life of the nation.

If you are wondering how dinosaur skeletons got into the province of the O.P.S., they fall into the category entitled "Geographical and Live or Preserved Biological Material (Human, Botanical and Zoological)" used exclusively for educational purposes.

—*The Controller* 3/52

THE CONTROLLER'S REPORTS TO TOP MANAGEMENT: A SURVEY

THOUGH THE results of almost all controllership activities ultimately come to focus in the written reports of the controller to top management, there is a scarcity of literature on the subject of internal reporting as a phase of the work of the controller and his accounting office. To obtain information on current reporting practices in this important field, a branch of the Controllers Institute recently conducted a survey, in the course of which detailed information was obtained from 20 companies. A summary of the results follows.

Among the 20 companies whose replies were compiled, it was found that a total of 260 reports are prepared. The number of reported statements per company ranged from one to 71. Of the 20 companies, exactly one-half indicated that 10 or fewer different types of reports were prepared during the year, whereas the other half showed that more than 10 such reports were made. A straight arithmetical average would be 13 reports per company.

For whom are reports prepared? The survey reveals that accounting reports are prepared primarily for, and delivered chiefly to, company officers and directors. Approximately 80 per cent of all reports issued by the accounting department are placed on the desks of top management. Department heads and division managers are the recipients of about one-third of all reports, while foremen and section heads naturally receive fewer—about one out of 10.

Frequency of the report. As would be expected, the monthly report took precedence in 54 per cent of the cases; stated differently, of the 260 individual reports prepared by the 20 reporting companies, 140 of them are regularly recurring monthly reports. Annual, semiannual, and quarterly reports broke even with a total of 23, or 9 per cent each. The weekly report seems to be used less than any other type; it garnered only 5 per cent of the votes, being below even the daily report, which was named 23 times, or 9 per cent of the total.

Uses of reports. The following uses or functions of reports were suggested in the questionnaire: expediting financial planning, reviewing and planning operations, setting standards, controlling cost, placing responsibility, and appraising individual performance. The results indicate that the 260 individual reports had, on an average, about two separate uses. Of the total of 260, only 80 reports (31 per cent) are alleged to be used for only *one* of the major purposes suggested in the survey. Forty reports were given a combination of two uses; 48 reports were described as having three uses; 25 were stated to have four uses; 15, five uses; and six were checked as being used for six of the seven uses mentioned; one respondent checked all seven. As might be expected, about half of all reports are used for reviewing and planning the operating and financial aspects of the business.

Interpretive aids used in accounting reports. In the survey, certain analytical devices, bases for comparison, and methods of presentation of information were suggested, to be checked if used in any particular reports. These included: cumulative column or columns; ratios; per-unit reduction; graphs, charts, and pictures; and business indexes.

In 77 reports (40 per cent), only one device was used; in 42 reports, two devices; in 26, three; in 16, four; in 13, more than four in the same report. The cumulative column is the most frequently used single device in reports covered in

this survey. It is the only means for comparison used in 16 per cent of the reports. Second in frequency (appearing in 22 per cent of the reports) is the device of interpreting the data in terms of some unit—pound, ton, unit of product, etc. It is oftener used by itself, but occasionally in conjunction with ratios and cumulative columns. The ratio is used in one out of four reports. It is more often used with other devices or comparisons than alone, but it is combined with all the devices mentioned above.

Several types of comparisons are common in current reporting practice. Comparison with the preceding period occurs most frequently, according to returns on this survey. This comparison rests on the assumption that the immediately preceding period is representative of normal activity. Comparison with the corresponding period a year previous is almost as frequently used. Finally, comparison with a budget figure—perhaps the most valuable comparison—is found in only 10 per cent of the reports included in this study.

Verbal interpretation. One writer's opinion is that "an operating report without adequate interpretive comments lacks punch and requires your executives to spend valuable time trying to pick out the story that figures tell." Eighty per cent of the respondents indicated that narrative comments are used in one or more reports which they prepare; 21 per cent of all reports, they stated, contain some narrative. Only one company issues a daily or weekly report containing comments, but 70 per cent of reporting companies issue monthly reports which include narrative. Quarterly, semiannual, and annual reports drew an even higher percentage.

Recommendations. The survey indicated that recommendations are made by only 35 per cent of the companies and in only 7 per cent of the reports described. Furthermore, recommendations are made only in reports covering the longer periods—monthly to annual reports.

The significance of these findings may either be that controllers believe that making recommendations is outside their bailiwick or that management has not fully accepted accounting officials as advisors except within certain limits.

External data. To the question "Do reports embrace any external data, such as economic statistics?" only four of the 20 companies responding answered affirmatively. It appears, therefore, that an overwhelming percentage of the controllers are not availing themselves of one of the most valuable contributions they can make to their managements.

—C. Aubrey Smith and Jim G. Ashburne. *The Controller*, December, 1951, p. 558:4.

THE CASE AGAINST EXECUTIVE STOCK-OPTION PLANS

Despite the fact that some top-flight companies have already adopted executive stock-option plans, most companies would be well advised to postpone the adoption of such plans unless they have a very real problem of competition for executive talent, lack of incentive in the executive groups, or relatively inadequate executive remuneration as a result of taxes. There is, of course, the possibility that companies with stock-option plans may be setting a pattern to which it may ultimately prove necessary to conform, but, at the present time, the risk of impaired relations be-

tween all levels of management and between management and rank-and-file employees outweighs any probable and immediate benefits from such a plan.

One of the reasons most commonly advanced for the adoption of the executive stock-purchase plan is that it will enhance the company's ability to recruit or retain key management personnel. It should be recognized, however, that a company has no need for any special plan to induce continuity of service in the key executive group if it has not experienced difficulty in retaining key executive personnel and faces no known problem of recruiting such personnel in the predictable future. Nor is there any need for such a plan in a company that has a young and stable management team and has every reasonable prospect of being able to continue to staff its management organization by promotion from within.

A second possible objective of a stock-option plan is to maintain or increase the effectiveness of participating executives by "enhancing their incentive." This purpose is difficult to evaluate, since there is a wide diversity of opinion about the genuineness of such incentive-producing effects. In a well-managed corporation, employees cannot retain top executive positions unless they continuously demonstrate more than average ability, initiative, and loyalty. It is difficult to believe that the possible acquisition of a relatively small block of stock would in fact stimulate the efforts or influence the manner of thinking about business problems of any executive presently discharging his responsibilities to the satisfaction of his superiors.

A third reason advanced for the adoption of such plans is that some supplementation of salaries is necessary to provide "fair" salary treatment of executives. Almost by definition, a program of executive compensation is fair if the executives concerned feel that they have been and are being fairly treated and if, consequently, the company is able to maintain an efficient management organization. It is true that, overall, executive salaries have not risen as fast as wage earners' rates and earnings during the last decade. But if a management feels the differences reveal any inequity in treatment, they bespeak a reconsideration of policy about salary administration rather than a need for any plan of extra salary compensation.

Most stock-option plans limit participation to a relatively small group of top executives. This opens such plans to two possible criticisms: that they are conceived by top executives as insiders in their own personal interests rather than in the interest of the corporation; and that they provide, above some inevitably arbitrary cutoff point, for discriminatorily favorable treatment for a selected group of executives. Stock-option plans are also open to other criticisms of a less fundamental character. Some executives would find it difficult to finance them, though they might feel under pressure to exercise their full options in order to maintain their prestige or for fear that failure to exercise them might raise some question about their loyalty. This results almost in a dilemma. If the allocations of stock are kept within limits that executives can comfortably finance, the plan might fail to achieve its purpose of providing for the participants a net profit of any real significance. If the allocations are large enough to accomplish this purpose, the strain of financing them might adversely affect the executive's efficiency.

Two basic problems of our times are to improve relations between management and employees and to increase public support of business enterprise. The trend toward stock options will certainly make no contribution to their solution. It is out of harmony with the very important

development of the trustee concept of business management that many leaders are trying to foster and may provide another weapon for the armory of the critics of business leadership.

If a management decides, nevertheless, to proceed with such a plan, the risk of an adverse reaction among nonparticipating executives and employees would be reduced if a companion plan for them were introduced at the same time. For this purpose consideration might be given to some sort of subsidized thrift plan. Such a plan could be devised to give all other employees in some degree a proprietary interest in the company if the subsidy were in the form of company stock or if company contributions were invested in company stock. The subsidy could be fixed or flexibly related to profits in excess of some specified rate. Such a plan with deferred distribution could be designed to qualify as a profit-sharing trust under Section 165 (a) of the Internal Revenue Code and thus give a limited opportunity for temporarily tax-free investment. It would also provide a desirable supplement to a retirement plan, since the adequacy of retirement benefits may be impaired if the cost of living continues to rise over a long period.

—"Executive Compensation: Stock-Option and Subsidized Savings Plans," *Industrial Relations Memo No. 125*, Industrial Relations Counselors, Inc., New York, N. Y.

Trends in Certified Financial Statements

A 1951 SURVEY of 525 published corporate reports for the calendar and fiscal years ending on or before April 30, 1951, again reveals that the customary certified financial statements are the balance sheet, the income statement, the retained earnings statement, and the statement of capital surplus.

Though the majority of companies continued to present these as separate statements, a noticeable trend toward the use of a combined income and retained earnings statement was again evident. In 1946, 24 per cent presented combined income and retained earnings statements, while by 1950 this percentage had increased to 32 per cent, with approximately one-half of this increase occurring in 1950.

The changes during the year may be summarized as follows:

Twenty-four changes from balance sheet, income statement, and retained earnings statement to a balance sheet with a combined income and retained earnings statement.

Six changes from balance sheet, income statement, and retained earnings statement to balance sheet and income statement only.

Six changes from a balance sheet with a combined income and retained earnings statement to a balance sheet, income statement, and retained earnings statement.

One change from a balance sheet and income statement to a balance sheet, income statement, and a retained earnings statement.

One change from a balance sheet and retained earnings statement only to include an income statement also.

—*Accounting Trends & Techniques in Published Corporate Annual Reports* (American Institute of Accountants, 270 Madison Avenue, New York 16, N. Y.)

OVER FOUR AND ONE-HALF MILLION PEOPLE are now enrolled in credit unions throughout the United States. There are some 10,581 active associations with assets exceeding, for the first time, one billion dollars. Loans by credit unions for the year 1951 amounted to almost this figure. During 1950, membership in credit unions increased by 12.7 per cent; loans, 20.4 per cent; and assets, 21.5 per cent.

—*Council News* 2/52

THE COMPANY FOUNDATION—A SOLUTION TO THE DONATIONS PROBLEM

THE UPWARD TREND of corporate taxes has caused companies to look into the advantages of establishing their own foundations, according to the Conference Board.

A large corporation desiring to give away a portion of its profits is faced with many problems. To obtain tax deductions for its gifts, the company must have made these gifts within the calendar or fiscal year for which its income tax is prepared. Often it does not know until the last month or even the last days of the year how much its net income will be and how much, therefore, it will have to give away. At the same time, a disbursement within the last few weeks of the year means hasty giving, with no time to investigate causes or institutions. If it is only a question of disbursing cheap dollars, a community will soon realize this and come to the conclusion that the company is merely giving away tax money. Under such circumstances, a corporation receives little credit for true philanthropy.

Under authority of Section 23 (q) (2) of the Internal Revenue Code, it is noted that most company contributions are deductible if they are made to "a corporation, trust, community chest, or foundation that is organized to operate in the United States or its possessions; which is organized exclusively for religious, charitable, scientific, literary, or educational purposes; no part of whose net earnings inures to the benefit of any private stockholder or individual; and no substantial part of whose activities is carrying on propaganda or attempting to influence legislation."

Companies that have foundations that answer this description, organized as separate entities, say they can turn over to them, within the last hours of the taxable year, whatever contribution they wish to make for philanthropy for the year. Disbursement of the sums put into the foundation can be spread over many years, allowing plenty of time for evaluation and consideration of causes.

Another important advantage attributed to giving through a foundation is that companies can maintain continuity in their donations and thus sustain long-term programs. If a philanthropic fund is built up by contributing maximum sums during prosperous years, the income can be used for sustained programs even in those lean years when the company is unable to put anything into the foundation.

Also, through existence of a company foundation, a company ultimately has more money to contribute to educational and charitable enterprises than it would if the gifts were made outright. For contributions to the foundation become principal which is invested, and interest on the investments adds to the sums which may be disbursed in the form of grants or loans. Security transactions of foundations are not taxable—another saving which helps maintain the capital fund and, incidentally, augment the income. Moreover, a foundation need pay no property taxes on land or buildings which it owns.

Some executives point out that a company has more freedom in giving through a foundation. If a corporation, for instance, lists its gifts for educational or charitable purposes as business expenses, each individual disbursement may have to be justified to auditors as an expense coming within this category. A lump contribution to the company foundation, on the other hand, is passed by auditors as a charitable contribution, so long as the foundation has been cleared with the

Bureau of Internal Revenue as a charitable organization. The fund's administrators have complete freedom in making the individual grants or loans, provided these are in accordance with the constitution and by-laws of the foundation.

Executives busy with operation problems say the foundation plan is appealing in that it sets up a definite method of receiving and handling the many requests for company donations. Organization of a foundation automatically provides a group of individuals who will give attention to appeals, sort them out, select those which are most worthy, adopt a budget, and follow through on grants to determine results. The company that has a foundation, moreover, need not confine its giving to those organizations which ask it for money. Foundation administrators can look around and determine for themselves the areas in which they would like to lend support. In fact, they may even start their own projects.

Also Recommended • • •

WHO SHOULD GET STOCK OPTIONS? By Arch Patton. *Personnel Journal* (Swarthmore, Penna.), April, 1952. When management has obtained stockholder approval of a plan to make stock options available to company employees, it faces an important decision, with very little experience to serve as a guide: How far down in the organization should options be given? In exploring this question, the author observes that a company stands to gain relatively little from an option plan that includes too many of its employees, or those who are unlikely to be motivated by this type of incentive.

DEFERRED COMPENSATION AND STOCK OPTION PLANS MAY BE LEGAL, BUT ARE THEY ETHICAL? By Everett J. Mann. *The Journal of Accountancy* (270 Madison Avenue, New York 16, N. Y.), March, 1952. Discusses some implications of fringe benefits and plans for indirect compensation which have become increasingly popular with rising income-tax rates. The author believes that, while these plans may be legal, they may have disadvantages, and that the CPA is an ideal impartial agent to counsel management as to the desirability of any plan under consideration.

THE CONTROLLER'S RESPONSIBILITY TO MANAGEMENT. By E. B. Rickard. *Michigan Business Review* (School of Business Administration, University of Michigan, Ann Arbor, Mich.), January, 1952. In discussing the functions of controllership, the author sets forth three requisites of an effective control system: first, an understanding of the organizational responsibilities that exist within the company; second, an analysis of operating problems to determine the financial information required by each person to permit him to operate with maximum efficiency; and third, a system in which there are clearly assigned responsibilities for furnishing the required information on a recurring basis. He illustrates his analysis by describing how the financial control system at the Ford Division of the Ford Motor Company was re-examined and certain problems handled.

WHY PROFIT FIGURES ARE MISLEADING. By E. Stewart Freeman. *The Controller* (One East 42 Street, New York 17, N. Y.), December, 1951. The author believes that current accounting practices tend to overstate profits and to understate investment in a period of rising prices, with the result that inflation is painted in rosy colors and resistance to it weakened. He recommends the use of specific accounting techniques which would make use of price indices and thus give a more accurate picture of the extent to which inflation undermines real prosperity.

UNCLAIMED DIVIDEND CHECKS IN SEARCH OF OWNERS. By Carl B. Everburg, Harvey W. Roscoe, W. W. Conant, and others. *Credit and Financial Management* (33 South Clark Street, Chicago 3, Ill.), April, 1952. Treasurers of a number of well-known business firms describe the procedures they use in tracing owners of stockholders' unclaimed dividend checks, which include: enlisting the aid of banks where previous checks were deposited to obtain owners' new addresses; having company branch personnel search local directories; using credit bureaus' tracing services; requesting stock transfer agents for leads; and grouping cases in a special "missing persons" file for concentrated checkup.

A CHECKLIST FOR INSURANCE PLANNERS

A KEY QUESTION among insurance buyers today is whether to keep the insurance bill down and assume greater risks or increase coverage at greatly increased expense. There is no simple solution to the problem, but many companies are making a sound compromise by reviewing their insurance portfolios to weed out less essential coverage and make room for more up-to-date policies. The following checklist summarizes the points commonly overlooked in insurance planning:

1. *Protecting Assets Against Inflation.* To keep property insurance in line with changing values, a number of companies have turned to two alternatives: One is depreciation insurance, a relatively new type of coverage designed to pay the amount actually spent in repairing or replacing the damaged property, regardless of depreciation and obsolescence. The second is to review property values regularly (some companies have the accountant report current property values quarterly), basing replacement cost either on first cost or on latest appraisal adjusted on an index basis, from which depreciation is subtracted.

2. *Protecting Earnings.* Companies with Business Interruption or Use and Occupancy insurance should check the policy to see if the restoration period (and the dollar amount of coverage) is still realistic in terms of material shortages and defense priorities. For example, deliveries on some production machinery are from 15 months to two years. If the restoration period in a manufacturer's U. & O. policy is one year, he's obviously not protected for a long enough period.

In reviewing your business interruption coverage, note these additional points: (a) If estimated sales for the coming year anticipate a rising market, your U. & O. coverage based on lower volume and prices will leave you underinsured. (b) If you are dependent on a single source of supply, inquire about contingent insurance to cover loss of earnings arising from a shut-down.

3. *Checking Liability Coverage.* There are hundreds of cases in which companies assumed they were covered only to find they were not—after the suit. Often, a Manufacturers' or Contractors' Liability policy is carried without the realization that Product Liability, Completed Operations Liability, and other special coverages are not specifically included. Even more caution is necessary in connection with the Comprehensive General Liability policy, about which there has been some misunderstanding. Special coverages are specifically excluded in most comprehensive policies.

With many firms shifting to substitute materials and using new chemicals and new fibres, Product Liability coverage is especially important. Laboratory research and pre-testing are not usually adequate substitutes for commercial or self-insurance against unforeseen consequences, and the possibility of a costly suit may represent a real risk. To build goodwill among their dealers, some manufacturers even include the broad form of vendor's coverage in their policy. Otherwise, the insurance company will refuse to defend a suit brought against a retailer or even against a wholesaler.

It is also advisable to check all leases

and other contracts carefully for liabilities that you may have assumed. The chances are that these are not insured under even a comprehensive policy, since insurance companies generally write assumed liabilities as separate coverage.

4. *Reviewing Loss Collection.* Many companies neglect to collect on all insured losses to which they are entitled. To cope with this problem, some firms instruct key people in production, maintenance, and accounting to separate routine repair and maintenance work from damage which is insured. Forms for reports of damage and limited circulation of up-to-date information on the company's coverage are the major elements of this system.

On the other hand, many small losses are not worth the trouble of submitting a claim. Also, too-frequent claims are likely to increase premiums. Top management should review the problem periodically in the light of such questions as these: What is the cost of self-insuring small risks? How often are claims likely to arise from these hazards? Will it be cheaper to assume such claims as maintenance or other business expense and take tax deductions?

A review from this point of view may show you some risks which are cheaper to assume yourself and may also help to determine the point at which deductible or excess insurance (if available) is worth while. Deductible coverage insures for high cost or catastrophic damages, and, at the same time, relieves you of paying premiums for small losses which are cheaper to shoulder yourself.

5. *Selecting an Agent.* The practice of buying insurance primarily on the basis of personal friendship is yielding little by little to the realistic selection of agents for the type of service they give. Though few agents fully measure up to all the standards, the following checklist will help you see how much service you're getting or not getting:

1. Has the agent really familiarized himself with the details of your plant and business so that he knows the hazards and potential liabilities peculiar to your operations?

2. Does the agent point out clearly what risks are *not* covered by each policy so that you are aware of the risks you are assuming?

3. Has the agent given you instructions to use in filling out claims reports?

4. Does the agent have some knowledge of accounting and appraisal methods?

5. Does the agent offer to go over premium and loss figures with you?

6. Does the agent keep you abreast of new types of coverage as they are made available, particularly new features that can be added to existing policies without cost?

—*Operations Report* (Research Institute of America, Inc., 292 Madison Avenue, New York 17, N. Y.), March 25, 1952.

LOW-RATE GOVERNMENT LIFE INSURANCE for war veterans has aroused criticism among some insurance men, but in the long run the G.I. program may be a real boon to the underwriters. The Institute of Life Insurance notes that 86 per cent of all families which include World War II veterans own life insurance, against a national average of only 75 per cent. Furthermore, while only 43 per cent of the nonveteran insured families put $100 or more into life insurance premiums each year, 53 per cent of World War II veteran families owning policies put that much into life insurance.

—*Commerce* 2/52

INSURANCE ADMINISTRATION: TRENDS AND RECOMMENDATIONS

A STUDY OF present-day policies and forms reveals that insurance companies, within the last several years, have been changing and liberalizing some forms of coverage and policies. Since an insurance program must make possible the replacement of the entire physical structure of the business and guarantee earnings in the event of a casualty, the wise insurance executive will keep abreast of such developments in coverage.

The various improvements in protection have been most noticeable in classes of business where company managements were free to broaden their policies as their judgment dictated. Life insurance is the outstanding example. Fire and casualty companies, however, have often been compelled to get restrictive state laws amended before they could offer broader protection. This fact furnishes an argument against laws which specify the perils against which companies may insure and in favor of those laws, now effective in some states, which authorize companies with sufficient resources to insure against all perils.

After the second world war, the insurance companies recognized a definite peacetime need for broadened vandalism and malicious mischief coverage. Early in 1950, they met the challenge by making the coverage available as a part of the extended coverage endorsement, and the rate of 1.6 cents per $100 per annum was reduced by the stock fire companies to one mil. The associated mutuals now provide this coverage, under their extended coverage endorsement, without any additional charge.

Beginning with the year before the war, industrial production ballooned, and managers were faced with greater necessity to keep all equipment operating or account for the loss of profits resulting from breakdowns. A desire arose for blanket direct-damage coverage on all objects or on all objects in a certain field of operations, and for a reporting form "Actual Loss Sustained" use and occupancy policy similar to the fire use and occupancy policy. In response to this need, the boiler and machinery conference brought forth the group coverage plan and premium gradation, which was progressive in a limited measure. However, a more satisfactory policy for the insurer would specify: "All boilers, pressure and vacuum containers, piping, appliances, valves, and fittings connected thereto or operated therewith are insured against accidents" and "All rotating, reciprocating, and electrical machinery and electrical equipment are insured against accident." This coverage, applied with a judicial use of the deductible clause, would provide the complete inspection that is desirable and the loss payments that are necessary.

With regard to liability coverage, a generally accepted safe and adequate plan is to cover legal public liability to non-employees for claims arising out of operations with a limit of $100,000 per bodily injury claim, $1,000,000 for all bodily injury claims arising out of one accident, and $3,000,000 aggregate for product claims. A property damage legal liability limit of $500,000 per accident and $3,000,000 aggregate for exposure is desirable. Automobile legal liability on non-employees to cover claims arising out of the operation of automotive equipment for industry should carry limits of $100/300,000 for bodily injury and $100,000 for property damage.

While on automobiles and trucks the limits suggested above are generally adequate, consideration should be given to the fact that in recent months several

freak automobile accidents have been reported in newspapers and trade magazines, where the resultant losses were in fantastic amounts. The larger industrial companies are generally well insured for the hazards for which they do not want to take the risk themselves, but many small companies that cannot afford to take the risk are under-insured.

In the field of fidelity insurance, the introduction of commercial blanket bonds, the packaging of other crime coverages with dishonesty under the three-D (dishonesty, disappearance, and destruction) policy, and the comprehensive crime form have given the insurance-buying public a much better opportunity of providing against unforeseen losses.

Workmen's compensation provides a legal remedy for industrial accidents and workmen's compensation insurance a way of financing the benefits provided by the remedy. Workmen's compensation is the type of risk that, in a large company, lends itself most readily to self-insurance—that is, each accident is a small part of the cumulative losses. For medium-sized employers, insurance companies have designed several insurance plans, known as retrospective rating plans, which provide that the insured share in the risk. The employer gets a refund if experience is good and is penalized by an additional premium if the current year's losses are bad. This is a direct and immediate incentive to the employer to practice loss prevention.

A financial executive, charged with the responsibility of protecting his company from the many hazards that might destroy or weaken it, is not well informed until he is thoroughly familiar with all the sources from which he may obtain the many kinds of indemnity the company requires. There are many arguments about and biased comparisons made of stock, mutual, and reciprocal systems of writing insurance. These arguments prove little, because insurance is good or bad depending on the management of the carrier rather than on the kind of operating plan that he employs. The buyer should, therefore, ascertain from available sources the carrier's financial and underwriting ability. Recent years have been favorable for most companies, but present unsettled conditions and the possibility of excessive losses outrunning rate increases make it advisable for the buyer to keep close watch on financial changes affecting insurance companies.

—R. S. Bass. *Best's Insurance News*, April, 1952, p. 25:6.

Painless Saving Through Life Insurance Dividends

THE TENDENCY for families in the United States who receive life insurance dividends to save this dividend money rather than spend it is increasing, the Institute of Life Insurance reports. By asking their companies to hold dividends for them at interest, these families have built up a record-breaking "left-at-interest" fund, which now amounts to one and a half billion dollars.

Policyholders have discovered that saving money through life insurance dividends is relatively painless. The policyholder gives his company instructions to keep his dividends at interest. From then on, until he changes his mind, this is done automatically. Moreover, interest rates paid by his life insurance company will increase his balance.

Many people decide to have their companies save life insurance dividends to provide for a time when it may become difficult for them to pay premiums out of current earnings.

People whose dividends are being held by their life insurance companies may

obtain annual statements showing the amount of money credited to them and the amount of interest being paid. They are able to draw all or part of the money out of their account whenever they wish and, in some cases, they can even borrow against their balance. However, they cannot increase their account by depositing additional money.

—*Insurance Advocate* 4/19/52

The Nation's Major Source of Capital

THE AMERICAN LIFE INSURANCE POLICYHOLDER is the most versatile investor in the nation, it was pointed out recently in a feature article in the *New York Times*. The premiums paid to American life insurance companies by their 86,000,000 policyholders today are being channeled into such diversified investments as atomic energy and gasoline stations, locomotives and oil wells, coal mines and merchandising stores, steel mills and surgical supplies.

Prior to 1940, securities considered in the "risk-free" class for investment of policyholders' money consisted primarily of government, state, and municipal bonds, topflight railroad and utility bonds, prime industrial mortgage obligations, and well-secured real estate holdings. At present, insurance dollars are found flowing into defense production and at the same time into a wide variety of businesses typical of the American free enterprise system. Declared the *Times*:

"Among the fields into which the insurance purchaser's dollars go, under the new philosophy, are not only the 'tried-and-true' of previous years, but a long list of investments seldom considered by cautious life insurance executives of an earlier era. These include leased railroad freight cars and automobiles; terminals, docks, and public highways; rubber tires and canned foods; tobacco and dairy products; paper mills and department stores; telephones and paper cups; radio tubes and women's apparel; and financial institutions with some of the most illustrious names in Wall Street.

"Defense financing to a total of about $3,000,000,000 since the beginning of 1951 by the life insurance industry emphasizes further the shift in the placement of investment funds."

Thousands of small local businesses are aided through life insurance loans, some by bond issues, even more by real estate mortgages. Commercial and industrial mortgages held by life insurance companies aggregate about $4,000,000,000, and the bonds of small concerns further increase this total, according to the Institute of Life Insurance.

—*The Eastern Underwriter* 12/21/51

Rate Lag Shown in Workmen's Compensation

PROBLEMS created by a deteriorating experience in workmen's compensation are highlighted in the annual report of the National Council on Compensation Insurance.

That 1951 would be a year of difficulty was evident from the countrywide 1950 loss ratio, on a standard premium basis, of 61.6 per cent, compared with 54.2 per cent in 1949 and 52.5 per cent in 1948. The first six months of 1951 produced a 65.2 per cent figure. Early indications of the full 1951 year figure are for no improvement.

Extensive studies were undertaken, designed to make rate levels more responsive to recent experience, instead of, as in the past, having a considerable lag before changing experience was reflected in rate changes. Some alterations in the rating method have been accomplished to give some promise of improvement in the rate lag situation.

Numerous filings were made for state rate increases, both because of a general trend of law level increases for weekly indemnity and for bad results not attributable to increased benefits. It is predicted that the majority of 1952 filings will call for further increases—probably in every state.

—*The Insurance Broker-Age* 3/52

IS CATASTROPHE MEDICAL THE ANSWER?

Is THIS IT? Is major medical expense insurance the "antidote to the evils of socialized medicine," as its principal purpose is said to be? Catastrophe medical raises more "if's" than almost any other subject in the accident and health field.

Any attempt to appraise the chances of private enterprise satisfying the expense of all our medical-care needs would arrive nowhere if the insurance company catastrophe covers alone were the determining factor. All catastrophe medical plans offered by insurance companies are based on the theory that: (a) basic hospitalization and surgical forms cannot take care of a family's big financial health worry; (b) to eliminate duplication by reason of such basic coverage and also to eliminate small claims, the first $100, $300 or $500, as fits the case, is paid by the insured (the deductible); (c) to give the insured some incentive to watch his costs (the coinsurance feature), the next 20-25 per cent of the bill is also borne by the insured; (d) a top limit in amount and/or time is necessary.

Now, let's take a closer look at a few of the plans:

Company "A"—A $300-$500 deductible applies to the entire family; it is reduced to $25 after the first expense period in any one policy year; maximum limit is $10,000; no time limit during which expenses must occur. Cost depends on location, age, and sex distribution, besides the usual factors of amounts, number of employee dependents, and coinsurance per cent. For what the company assumes to be normal factors in these respects, and on the basis of $300 deductible, $5,000 limit and 20 per cent coinsurance for a group located in New York or Chicago, cost is about $80 per year (employee and wife and two children), or about $40 if the employer paid half. If primary hospitalization and surgical is also carried at $176, then the employee contribution for complete coverage would be about $128 ($40 plus half of $176). The same plan with a $2,000 limit would reduce the cost by 5 per cent or to about $167 for complete coverage.

Company "B"—Deductible comes as low as $100, but there is an additional deductible of 1 per cent of annual salary plus 25 per cent coinsurance feature; limit comes as low as $1,500; basic plan may be used to offset deductible. Operation is as follows: Expenses less deductibles and coinsurance for any one expense-cause are paid during any one 12-month period; then deductible is reapplied for another 12-month period if the limit has not been exhausted and if the insured is totally disabled—otherwise only three months' more coverage instead of 12. Minimum group—50. Assuming the same basic plan, complete coverage would cost about $230, or on a 50-per-cent-employer-contribution basis, about $115 for $1,500 limit and $100 deductible.

Company "C"—Lowest deductible is $300, with a 25 per cent coinsurance requirement. Deductible applies after basic coverage is exhausted. Cost for $2,000 limit, $300 deductible, is about $50—which, with the same basic plan, brings total cost to about $226 or $113 per employee if the employer pays half.

Any of these plans comes as near to covering all medical expenses as you can get and at costs which do not differ substantially. The uninsured expenses, other than the usual exclusions, would include prescriptions and expensive drugs, specialist consultation, nurse service, and perhaps some diagnostic service charges—that is, unless the total bill exceeded the deductible, coinsurance, and basic coverage protection. Likewise, no charges for chronic illnesses would be paid for until their sum came within the catastrophe portion of the coverage.

Now, examine these plans in the context of their fundamental actuarial assumptions, and you will see something of the kind of impact they can have on the medical-expense insurance picture:

1. The catastrophe coverage, by itself, is, in most cases, a very comprehensive protection for an exceedingly attractive premium. Those in income brackets that can assume the first $200 to $500 or more of expense will find in these plans the answer to most medical-expense problems.

2. But the deductible plus coinsurance features remove all possibility of covering expenses below this $200-$500 and more level. That is the very reason why some insurers are requiring some primary coverage (at least hospitalization) to be carried as well. Without primary insurance, according to one company executive, "the average employee will not at this time buy a deductible." Yet, if anything more than basic hospitalization is added to the catastrophe contract, the protection, as we have seen, begins to be much too expensive for the average family.

3. The deductible, but more especially the coinsurance feature, suggests that the companies anticipate something which they know must be avoided: They anticipate use of the catastrophe plan in excess of reasonable limits by families and individuals who for the first time would have the means to pay for adequate medical attention; they fear collusion between some physicians and patients; they expect many physicians to up their charges once they know insurance is in force (a fear based on experience); they fear a higher loss ratio on dependent wives than on male employees.

These are the reasons why every company officer and underwriter calls the field an "experimental" one. It is why insurers emphasize that they are "going slow" in pushing the sale of catastrophe covers.

—IRV DAVIS. *The Spectator*, February, 1952, p. 12:9.

The Ideal Insurance Program

A BASIC INSURANCE PROGRAM in a middle- and large-size enterprise which would provide for the maintenance of necessary protection may be summarized as follows:

1. Make a survey of the hazards to which the industry in all its activities is exposed.
2. Determine the size of the exposure.
3. Ascertain by study the forms and types of contracts available (being always on the alert for new developments).
4. Make decisions as to what forms to use and refer major questions in this regard to top management for approval (executive committee or board of directors).
5. After exploring the market, procure from reliable insurance companies the coverage to meet that exposure.
6. Take an active part in loss prevention activities, aiding in supervision of these programs.
7. Set up and maintain records which will reflect earnings and changes in values so that coverage may be adjusted and kept in line with policy requirements.
8. Secure certificates of insurance from all contractors and service organizations doing work on the premises.
9. Arrange for an insurance survey and audit by independent professional insurance analysts.
10. Attend at least one of the insurance meetings of the American Management Association each year. Encourage and make it possible for assistants to enroll in AMA insurance workshop seminars, which are discussion groups

providing an exchange of actual working experience and exploration of problems.

11. Affiliate with and take an active part in buyers' organizations.
12. Subscribe to and study outstanding insurance magazines.

—R. S. Bass (Treasurer, O. E. Staley Manufacturing Co.) in *Best's Insurance News* 4/52

Discount for Dryness

ONE COMPANY plans to make abstinence a financial incentive. The Preferred Risk Mutual Insurance Company, Des Moines, Iowa, has been licensed in Oklahoma to write automobile liability on persons who state on their application that they will not take an alcoholic drink during the life of the policy. Such risks will be written at a 25 per cent deviation from standard rates.

—*Best's Insurance News* 2/52

Also Recommended • • •

WHEN THE WRONG PERSON DRIVES A COMPANY CAR. By Tower Belt. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), April, 1952. The popular concept that automobile liability insurance covers the car regardless of who is operating it is far from correct, the author points out. In many cases, the insurance contract does not afford coverage when a company car put to personal use by an employee is involved in an accident. The article cites several insurance factors that must be considered when a company furnishes cars for its employees.

THREE LITTLE EXCLUSIONS CAUSE LIABILITY TROUBLES. By J. O. Honeywell. *Rough Notes* (1142 N. Meridian Street, Indianapolis 6, Ind.), February, 1952. Because misfortunes and insecurities involving injury to property become confused with the inherent risk of the business itself, the policy form covering property damage liability requires certain safeguards to define the underwriting intent. These safeguards take the form of the following clauses, which are discussed in this article: "caused by accident," "out of which the accident arises," and property in the "care, custody, or control" of the insured. The author believes that objections to these safeguards would be overcome if agents explained properly the limits of property damage liability coverage.

SOME ILLUSIONS AS TO LIFE COMPANY SIZE. *The Eastern Underwriter* (41 Maiden Lane, New York, N. Y.), February 15, 1952. The freedom of entry into the life insurance industry, the average growth in the number of companies, the increasing number of smaller companies, the dynamic shifts in industry leadership, and the wide dispersion in prices are factors which the author discusses in demonstrating the competitive nature of the life insurance industry. He believes that, far from being an aggressively dominating force in the economy, the industry has failed to keep pace with the rest of the economy for more than two decades. To illustrate this point, he cites the fact that the average amount of private insurance in force per family in the U. S. is now only about $5,000.

A & H DEVELOPMENTS. By J. F. Follmann, Jr. *Best's Insurance News* (75 Fulton Street, New York 38, N. Y.), April, 1952. The tremendous growth in accident and health insurance coverages in recent years has been marked by experimentation with new coverages, a rising barometer of competition, a growing shortage of experienced and qualified personnel, an increasing self-consciousness on the part of the industry, and other recent developments which are discussed in this article. The author notes a distinct trend toward the schedule type policy by which the policyholder can select any or all of the coverages offered.

LARGE INDUSTRIAL FIRES. By Chester I. Babcock. *Best's Insurance News* (75 Fulton Street, New York 38, N. Y.), April, 1952. The author urges all fire protection engineers to analyze large industrial fires in order to be able to recognize specific hazardous conditions, evaluate the effect of human acts upon these conditions, and appreciate the relationship of a particular hazard to other fire protection weaknesses in the plant. To illustrate his "theory of fire hazard relativity," he gives a complete case history of three large industrial fires that occurred last year.

Survey of Books for Executives

SPEAK UP, MANAGEMENT! By Robert Newcomb and Marg Sammons. Funk & Wagnalls Company, New York, 1951. 308 pages. $5.00.

*Reviewed by Ben F. McClancy**

There is an art in taking yesterday's dinner out of the refrigerator and adding to it a dash of this and a pinch of that to make it appetizing again. And it is an art that the writing team of Newcomb and Sammons have perfected. While this book is warmed-over meat pie, there is still a lot of meat in it. Though it explores no new fields, and actually says nothing that has not been said many times before about the various media of management communications, it does cover the subject the way Aunt Nancy's patchwork quilt covered the old fourposter. Because the Newcomb-Sammons writing style is readable and their approach sound, their tips on such items as the management newsletter, the employee handbook, the annual report, the plant open house, and visual and audio-visual communications will be of value to the personnel director or the plant public relations man who is charged with these responsibilities.

It is hard to review a book that is itself something of a review, and fundamentally that is what *Speak Up, Management!* is. But if you are not getting the most out of your communications system, Newcomb and Sammons' discussion of the subject will tell you why.

Take your bulletin boards. Do they pay off? Do you make them talk? If not, it is worth while to see what the authors of this book have to say about bulletin boards. They tell you where to place them, how to give them "eye" appeal, when to change the material, and how to maintain a balance between pictures and text. And judging from some company bulletin boards that carry nothing except a shopworn, scribbled-over poster of the rules governing the employment of women and minors, there are manufacturers that could do much to improve this method of communication. Since in many a small plant the bulletin board is the only mechanical means management has of getting its story over to its employees, it is obvious that some firms are not taking full advantage of this device.

Perhaps such firms don't know what stories would interest workers. But Newcomb and Sammons know. They inform us that a paragraph or two on the bulletin board about changes in company policy and personnel, future company plans, new equipment and products, financial reports, sales, cost factors, and the production situation will attract worker attention—and they are right.

To test the practicability of the book, I showed it to an executive of a large multi-unit manufacturer who had requested some advice on an open house his company planned to hold. Though he had, personally, never run such an affair, a review of his company's proposed program revealed that the "know-how" of his management generally and their experience in conducting open houses of a similar nature at other plants served them well. The plan of action included everything. The objectives the company hoped to accomplish through the open house were defined, and the public relations department was busy promoting the occasion. The route of the plant tour had been selected; guides had been trained; displays of company products had been arranged; souvenirs to be distributed had been chosen; and refreshments for the guests would be ready. To him the chapter on the open house in *Speak Up, Management!* was simply a good checklist, and a glance through its contents told him that he had not missed a trick.

I also showed this book to a personnel man from a small plant who was planning a similar event. To him it was a gold mine of sensible advice and ideas. Since his company had no library and had never held an open house before, he did not know how to pro-

* General Manager, The Associated Industries, Cleveland, Ohio.

ceed. He read through the chapter, made careful notes, and told me afterward: "You know, I believe I can organize an open house now without any trouble at all. I know exactly what I am to do. This is a regular blueprint for the job. Anybody could follow it."

He had put his finger on the real value of this book: it is a practical blueprint to sound communications. If you are trying to write a company handbook, it tells you how, giving you excellent advice on what material to include. If you want to start a supervisory educational program, Newcomb and Sammons explain the steps to take to organize and activate it. And the same "here's how" technique is applied to every phase of the management communication system.

In view of the fact that almost 90 per cent of the manufacturing companies in this country employ less than 100 people and probably 95 per cent of them give work to less than 500, there is certainly a great number of managements that could use this book with profit. The small employer needs information of this kind; he, if anyone, needs to speak up to his workers systematically. Therefore, if I have any criticism of this book, it is this: The slant is wrong. Fortunately, there are enough people speaking up for big companies or telling them how to speak up for themselves. Large firms know the techniques of employee and public communications, for they have men on their payrolls who are specialists in this field. This, however, is a book for the little fellow who doesn't. Unfortunately, the title will not attract them, for it is hardly an inspired description of the contents of the volume. I say this from experience, for sometime ago our organization distributed a booklet on industrial communications, which we named, *Speak Up, Cleveland*. We later learned from the comments of many of our members that they had no idea that our handbook had anything to do with employee communications. A few had simply glanced at the title and were under the impression that it was a brochure aimed at persuading executives to write to their Congressmen and give the business point of view on various matters. We later rewrote the booklet, this time calling it *Here's How Small Management Can Talk to Its Employees*. Though this admittedly, was no great improvement, we found that on the second try our book was read by far more people, and that small companies derived more benefit from it.

This, then, is a book that you might not give to a friend who already has a book on employee communications. But it is a book that should be on the shelf of the small plant manager. Though its advice may appear elementary to the sophisticate in public relations, to the ordinary fellow, and most plants are run by ordinary fellows, *Speak Up, Management!* speaks the practical, common-sense language he likes to hear.

MANAGERIAL ECONOMICS.

By Joel Dean. Prentice-Hall, Inc., New York, 1951. 621 pages. $6.65.

Reviewed by Jean Hund*

This book presents applications of modern economic principles to the managerial problems of the average firm. Though no new theories of economics are advanced, a unique adaptation of economic analysis to business is developed and highly complex economic concepts are capably treated. The material is well organized, and these concepts are made easily understandable to the layman.

The book is divided into 10 chapters, dealing with all phases of business economics, from profits to capital budgeting. The central theme revolves around the three primary facets of competition that command managerial attention, namely: product improvement, sales promotion, and pricing. The nature and measurement of profit are explored and reasonable profit standards discussed. In addition, the author examines methods for guarding against "the hardening of profit-seeking arteries" in the lower management levels of the company. Several kinds of competitive situations are reviewed, and their pragmatic effect on price behavior and market structure is analyzed.

The author presents a succinct analysis of demand and cost with regard to their effect on the formulation of product, promotional, and pricing policies. The practical problems

* Dunlap and Associates, Inc., Stamford, Conn.

of planning and controlling the advertising expenditures of a company are discussed, and a valid basis for determining the amount and extent of advertising is presented with special emphasis on the measurement of its economic effects.

The author develops a basic philosophy of pricemaking, indicating how economic analysis and market research can be used to improve practical pricing. Management of multiple-product firms is faced with the additional problem of determining the proper relationship among the prices of members of a product group. The solving of pricing problems of both single-product and multiple-product lines is thoroughly covered by the author. The necessity of tailoring prices to meet the peculiarities of particular purchasing situations is recognized, and distributor, quantity, and cash discounts are discussed, together with geographical price differentials.

In his treatment of capital budgeting, the author evolves a new approach to the problem of capital expenditure, proposing a system aimed at reducing executive time and confusion in making decisions. This system highlights the economic issues involved in such expenditures and the importance of the managerial decisions which must be reached.

The author has presented, clearly and logically, a technique for applying economics to the problems of business. This volume should prove a useful aid to anyone charged with the responsibilities of business management.

Briefer Book Notes

[Please order books directly from publishers]

HANDBOOK OF EMPLOYEE SELECTION. By Roy M. Dorcus and Margaret Hubbard Jones. McGraw-Hill Book Company, New York, 1950. 349 pages. $4.50. Covering published material through 1948, as well as a number of unpublished studies, this book gathers together relevant information dealing with the selection of employees by means of scientific procedures. Presentation is in the form of abstracts, containing only essential data and arranged chronologically. A job index, to permit quick reference to all material relating to a particular job, and a test index, to assist in the location of studies in which a particular test has been used, are included.

WHO WRITES WHAT?: 1952. Copyright by the National Underwriter Company, 420 East Fourth Street, Cincinnati 2, Ohio. Eleventh annual edition. 240 pages. $ 3.50. A compilation by subject of the current practices and contracts of life insurance (and accident and health) companies, prepared with the cooperation of a representative group of interested companies.

RISKS AND RIGHTS. By Samuel Spring. W. W. Norton, & Company, 101 Fifth Ave., New York, 1952. 385 pages. $7.50. Covering the fields of publishing, television, radio, motion pictures, advertising, and the theater, this is an expert guide to the laws on privacy, copyright, slander, libel and unfair competition. Written in nontechnical, readily comprehensible language, the book is well documented with pertinent case material. In the business field, it will be of primary interest to advertising, public relations, and employee communications executives.

SHOWMANSHIP IN PUBLIC SPEAKING. By Edward J. Hegarty. McGraw-Hill Book Company, Inc., New York, 1952. 236 pages. $3.75. Every speaker, Mr. Hegarty believes, must learn to use the many tricks of public speaking to put on an act or a show that will win and hold an audience. In this helpful book, he shows how one can consciously develop persuasive speaking techniques that will insure increased audience response.

Publications Received

[Please order directly from publishers]

BUSINESS ECONOMICS: *Principles and Cases.* By Richard M. Alt and William C. Bradford. Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, Ill., 1951. 581 pages. $7.35.

INVENTIONS AND THEIR MANAGEMENT. By Alf K. Berle and L. Sprague De Camp. International Textbook Company, Scranton 9, Penna., 1951. Third revised edition. 742 pages. $7.50.

THE EMPLOYMENT OF ELDERLY WORKERS: ***Report on the Practice and Experience of 400 Member Firms of the Industrial Welfare Society.*** Industrial Welfare Society, Inc., 48 Bryanston Square, London, W. 1. 97 pages. 10s. 6d.

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The June 1952 conference will stress those trends and aspects of the current management picture which are particularly meaningful under present conditions.

Among the special features of this meeting will be:

1. A presentation by Ralph J. Cordiner, President of General Electric Company, on PROBLEMS OF MANAGEMENT IN A LARGE DECENTRALIZED ORGANIZATION.
2. An interview with both Dr. George Gallup and Elmo Roper.
3. A review of HOW EFFECTIVE IS EDUCATION FOR MANAGEMENT by Lyndall F. Urwick, eminent British management authority.
4. A Presidents' Round Table on SOME PRINCIPAL ISSUES CONFRONTING MANAGEMENT.
5. A discussion of MANAGEMENT AND THE POLITICAL FUTURE by Raymond Moley, Contributing Editor, *Newsweek Magazine.*

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